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THE TRADE OF THE EAST INDIA COMPANY

F. P. ROBINSON

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FROM 1709 TO 1813

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THE TRADE
OF THE
EAST INDIA COMPANY
FROM 1709 TO 1813

by

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As the burr tree is emblematical of the Deity; so do the virtues of the Governor resemble the burr tree; he extends his providence to the remotest districts and stretches out his arms far and wide to afford protection and happiness to his people.

FORBES'S *Oriental Memoirs*, 1813.

PREFACE

THE trade of the East India Company presents peculiar difficulties as a subject for an essay by reason of its extreme complexity. It might have been possible to deal with each branch of the trade separately, collecting statistics and tracing commercial developments in a manner which would have been useful to the economist. I preferred, however, to trace the gradual development of the trading corporation into a political power, and to describe carefully the economic and other causes which led to this transformation. In so doing considerable light is thrown upon the growth of economic thought by the various arguments which were adduced in support of the Company's monopoly at different periods. Whenever the continuation of the monopoly was mooted, a pamphlet war ensued, and it is from these pamphlets that I have endeavoured to draw a consecutive account of the modification of public opinion on trade questions.

In chapters V and VI I have collected various statistics and details of trade. These make no claim to be exhaustive, but it is hoped that they will enable the reader to form some idea of the magnitude and success of the Company's enterprises.

I have added a list of the authorities which I consulted. Considerable use was, of course, made of Mill's *History of British India*, but I have endeavoured always to verify his facts, except where I have quoted him as my authority in the text or notes.

Finally my best thanks are due to Sir Theodore Morison, K.C.I.E., to Mr G. P. Moriarty of Pembroke College, and to my mother, for very valuable assistance in preparing this essay for the press.

F. P. R.

PEMBROKE COLLEGE,
CAMBRIDGE,
December, 1911.

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CHAPTER I

INTRODUCTION

Throughout the seventeenth century controversy raged round certain aspects of the great trading companies, as to-day it rages round the Tariff question, Socialism, and the Hereditary Principle. Gradually men began to have more precise views upon economic theory, and on the balance of trade. It is therefore of extreme interest to compare the attacks made upon the East India Company at different periods, and thereby to secure an insight into the progress of economic thought and the development of political ideas. But we must remember that, although, when tested by modern principles, the monopoly of a trading company may appear indefensible, it is probably just to say that the existence of such companies was not only consonant with the economic theories prevalent at the time, but was also the only possible expedient in view of the inefficiency of other branches of human activity, and particularly that of government.

The monopoly of the early Chartered Companies had a political rather than an economic basis, and the aid of the government was invoked and cajoled as some outside force, to help one section of the community against all others. Prior to Tudor times, all matters concerning trade had been within the sphere of the Royal prerogative, and this was recognised without question as the constitutional position, so that the grant of a rich monopoly to a court favourite was considered to be quite within the rights of the Crown. Elizabeth, however, carried the practice to a dangerous excess, and the Commons, now that the bogie of Hapsburg ascendancy was a thing of the past, made a stand against the prodigality with which she granted unnecessary monopolies to her courtiers. The Queen, who was most certainly abusing her privileges in thus sacrificing to personal favouritism the interests of her subjects in general, was wise enough to withdraw, and the Royal prerogative in the matter was left as a field of controversy for her successors.

But, generally speaking, monopolies were not granted for the benefit of the monopolist alone. They served as a simple means of imposing taxes upon the trade of the country, and also of securing the ready observance of the hundred and one regulations with regard to wages, apprenticeship, export of bullion, and other details, which the early

governments of England saw fit to impose upon their subjects. These arguments were sufficient to justify the existence of companies for internal and continental trade, but when the early adventurers discovered markets and founded trade settlements thousands of miles from England, it became more and more necessary to endow some particular members of the community with exclusive privileges. The organisation which these monopoly companies were able to employ served for the protection of the merchants when engaged in their trade, and a company, founded for foreign trade, was the central authority to which the individual could appeal for protection and assistance. When the government resumed this responsibility and paid its own consuls and ambassadors, the need for a monopolist company ceased, and the justice of its privileges was no longer arguable. Thus the Chartered Companies of merchants take their place in the long procession of human institutions which have become obsolete and passed away. Many of these, such as Monasticism and the Gild system, outlived the period of usefulness, and have since been attacked as mischievous anachronisms. It was because the East India Company's monopoly had outlasted the conditions to which it owed its creation that its extinction in the nineteenth century was greeted with just and general approval.

The East India Company has an additional

claim to careful consideration from the fact that it was the first to employ the Joint Stock principle for the management of trading ventures. Its predecessors were only Regulated Companies, each member of which traded independently with his own capital for his own profit, but agreed, under pain of losing the privileges of membership, to abide by whatever rules and regulations should be made by the Company for the control of its members. Admission to the Company could always be obtained by paying a fee[1]. It was said on the other hand that, since its membership was limited by the extent of its capital and the members were only allowed to trade to the amount of their paid-up subscriptions, a Joint Stock Company was in reality a strict monopoly. But it should be remembered that membership could always be secured by purchasing stock in the open market, and thus, though a monopoly in theory, it was not so in practice.

During the first few years of its existence the East India Company was a Regulated Company. Soon however several members combined together to finance a voyage, and thus a modified Joint Stock system was inaugurated, in which the capital for different voyages was subscribed by separate groups of members, but which did not

[1] This fee was often raised so as to render the Company a practical monopoly, although in theory it was open to all members of the community equally.

entirely remove the ruinous competition between different ships when they reached the East. This unsatisfactory arrangement continued until 1613, when the members realised the advantages to be gained by extending these modified partnerships to include all shareholders in the Company. Each voyage however was still treated as a separate venture, so that the system did not conform to all the conditions of a modern Joint Stock enterprise. The ultimate phase was only reached in 1657, when the capital of the Company was first treated as a definite sum, which was not to be divisible among the subscribers.

As early as 1591 an English adventurer sailed to the East with three ships. His voyage was wholly disastrous, but, being four years in advance of the first Dutch expedition, Captain Raymond has the credit of having torn the famous Papal award into shreds. The Dutch however were the first to give serious attention to the Eastern trade, and by the time the English Company was formed they had a firm footing in the Spice Islands. It was, in fact, the Dutch, rather than the Portuguese, who were the most formidable rivals and the most vindictive adversaries of the Company in the seventeenth century.

After some attempts to destroy each other Dutch and English contemplated a modified form of union, and in 1619 an agreement for sharing the

trade and for the maintenance of garrisons under a Common Council of Defence was completed. The Dutch however did not keep their bargain. Hostilities were renewed, and the massacre of Amboyna compelled the English to withdraw from the Spice Islands. This event is doubly important, firstly because it enlisted the sympathies of Englishmen in general on behalf of their countrymen in the East, and secondly because it compelled the Company, now deprived of the spice trade, to concentrate its efforts on the Peninsula of India. For some time the Company fared very badly. It was subject to violent attacks in certain quarters at home; and in the East the enmity of the Dutch was so strong that Hedges says in his *Diary*: "I believe it impossible to know a Hollander's temper and natural hatred to an Englishman so well in any other part of ye world as in India." In fact the whole question presented such grave difficulties, that Cromwell seriously contemplated selling the East Indian trade to the Company's rivals. There is a draft agreement extant which runs as follows:

> "That the trade of all Asia, the Great and the Little, shall henceforth belong unto the United Provinces, and that the state of England, Scotland and Ireland, nor any of their inhabitants shall not, nor have, nor may trade there any more. The places in Asia

which do join on the Middle Sea only excepted. And that there shall be given unto the English Company of East India by the Company of the East Indies of the United Provinces the sum [left blank], and thereupon shall the English Company and all others leave trading there, and return home, and go no more[1]."

When the Council of State threw open the East India trade to all British subjects equally, Cromwell was quite unable to protect the ships engaged in it. They were preyed upon by Algerian pirates, Royalist privateers, French, Spanish and Dutch freebooters at one and the same time. It follows that the final resuscitation of the Company's monopoly in 1657 was at once a confession of his inability to protect English ships upon the sea and a proof that a Monopoly Company was at present the only possible means by which foreign trade could be successfully conducted.

During the Great Rebellion and the Commonwealth the Company showed considerable skill in steering a middle course. Being founded upon a Royal Charter, it was inevitable that it should be viewed with deep suspicion. It was however wise enough to present a most humble and apologetic petition to Parliament, and in 1629 it strengthened

1 Thurloe's State Papers, II. 125.

its position by refusing to lend money to the King, although later it was obliged to submit to the great Pepper Loan.

The Dutch were not slow to take advantage of the confused state of English politics. They formed a treaty with the Portuguese; they employed force to secure a monopoly of the Persian trade; and finally they made capital out of the execution of the English King and attacked the Company as rebels. In these circumstances the Company was quite unable to cope with domestic competition, and in 1650 it was obliged to admit to its privileges the chief body of interlopers, organised by Sir William Courten, and styled the Assada Merchants from the Madagascar settlement of that name; but after this concession the Company was so successful in its diplomacy, that when Cromwell made peace with the Dutch in 1654, he paid considerable attention to its interests, and secured an indemnity of £85,000 for the massacre of Amboyna and the consequent loss of trade. Difficulties however arose over the method of dividing this sum among the several Joint Stocks, of which the Company's capital was then composed, and, pending their settlement, Cromwell borrowed £50,000 of it for purposes of State. He thus anticipated the policy of Montague and his successors, who compelled the Company to grant public loans as the price of their privileges. In 1657 Cromwell granted

a full Charter to the Company by which the Joint Stock principle was completely recognised. All the old separate stocks of which the Company's capital was composed were united into one new stock, which was not to be divisible among the proprietors. Unfortunately no copy of this Charter exists, but it most certainly conferred the absolute monopoly of the East India trade upon the Company and its servants.

At the Restoration the position of the Company was fundamentally changed. Charles II ceded Bombay to it in return for a rent of £10 per annum, and this act, though of little practical importance, marked an epoch in the constitutional development of the Company, by changing it, so far as Bombay was concerned, from a trading association into a territorial sovereign. Thus it is that Charles II should have the credit of laying the foundation for the British dominion in India. The importance which the King attached to commerce was further shown by the foundation of the Board of Trade, to which the East India Company sent two delegates, while the privileges which he granted to the Company paved the way for the further concessions which were obtained from his brother. In fact, under the later Stuarts the Company may be said to have reached the flood tide of its prosperity and to have been a "sovereign estate in India, ruling from Leadenhall Street, with a rod of

iron[1]." During the reign of Charles II, its capital was all but returned in a single year, and its influence upon the money market was irresistible.

Speaking generally, the Charters granted by the later Stuarts confirmed to the Company all its old privileges and rights, and conferred upon it additional legislative and punitive powers to enforce those privileges. It was empowered to hold courts of justice for the punishment of its servants; it might send ships of war for their defence; it might build forts, and employ troops. It was allowed to make laws for the government of its settlements, and was authorised to coin money—£50,000 per voyage in London, and an unlimited amount in Asia. Its representatives were also permitted to declare peace or war with any of the heathen nations within the scope of the Charter, and to employ martial law when necessary. It is noteworthy that when, in 1687, Madras was raised into a Corporation with Mayor and Aldermen, the Charter was issued under the seal, not of the Crown, but of the Company.

These Charters, together with the grant of Bombay, gave the Company a position of unique privilege. But, a few years later, when Parliament had gained a complete victory in its struggle against Royal prerogative, and had secured the

[1] Quotation from a speech by the Governor.

Sovereign's agreement to so democratic a document as the Bill of Rights, the position of the East India Company did not escape unchallenged by the Whig leaders. During the period of the Revolution the attack upon the Company burst forth with renewed fury, for it counted King James II among its members, and was in many ways intimately connected with the Royalist party. There was always considerable latent opposition, which appeared in the form of pamphlets and Parliamentary diatribes whenever the question of the renewal of the Company's privileges was mooted. In the early history of the Company its monopoly was attacked on two distinct grounds. On the one hand, it was said that the existence of Monopoly Companies inflicted great hardships upon the community at large. There was no suggestion that they were prejudicial to the country's commercial development: the general idea was rather that, though beneficial to the country's prosperity as a whole, the benefits only reached a small portion of the community. The large majority, if anything, suffered by reason of their existence. It was not until the second half of the eighteenth century that the Company's existence was attacked on grounds of general economic expediency, an argument with which the name of Adam Smith is intimately connected. At the same time the monopoly was attacked by

the merchant classes on personal grounds. Not being members of the Company, they wished to be admitted to a share in the profits of the Eastern trade, and therefore they urged the advantages of a Regulated Company as against a Joint Stock Company. For with a Regulated Company anyone who wished could participate in the trade. In the light of the triumphant Whig doctrines of popular liberty, it was easy to frame a powerful attack upon the very foundations of the Company's existence. The same accusations, the same arguments, and the same replies occur with great regularity throughout the century, but the arguments adduced carried increased weight as popular ideas upon the Royal prerogative and the function of Parliament became more advanced.

Although the attacks were usually aimed at the monopoly alone, throughout the history of the Company some fanatics could always be found to deny that the East India trade was profitable to England. These patriots would have been willing to see the trade entirely abolished, or at most limited to spices and saltpetre. The arguments which they employed were largely based upon the belief that a country's wealth depended upon its supply of the precious metals. The East India Company was unable to sell British woollen goods in the hot regions of India, and was therefore obliged to export bullion, a proceeding which was

opposed to all the political and economic theories of the day. It was bitterly attacked for this, as also on the grounds that the East India trade was unprofitable to England since it did not enlarge the market for her woollen goods. Consequently, to silence the complaint, it was obliged to export a greater supply of these English staples than was necessary to satisfy the Indian demand, and to sell them at a loss. It was further urged that the importation of cotton and silk was prejudicial to the wool trade, and on more than one occasion the wearing of silk and cotton was declared illegal by Act of Parliament.

For the Company, the battle was fought by its chairman, Sir Josiah Child, who published a series of pamphlets in its defence under the pseudonym of Φιλόπατρις. The pages of Macaulay's *History* contain graphic accounts of Child's successes. He has described how this great intriguer converted the Company from Whig to Tory; how he secured the King as a subscriber; how his policy was baffled by the Revolution; and, finally, how keenly he fought and struggled against the encroachments of the New Company. It may be that many of his actions were highly blameworthy according to standards of honourable dealing. His expenditure upon political bribery was enormous, and his shady transactions upon the Stock Exchange are unsurpassed, if we are to believe the account given

in contemporary lampoons[1]. However, the final triumph of the principle of monopoly was due to his efforts, and, although it is true that after his death the London Company was compelled to accept union with the English Company, yet, when in 1708 "THE UNITED COMPANY OF MERCHANTS TRADING TO THE EAST INDIES" entered upon the struggle for India, it enjoyed the fullest privileges of monopoly and prerogative within the boundaries of its Charter. In this essay however we are more immediately concerned with the arguments contained in his pamphlets, by which he endeavoured to substantiate the economic value of the Company. In the first place he stated that the East India trade was the most national of all foreign trade. It employed so many ships, that the absence of many of them in India for a considerable period of the year and the fact that many were lost completely owing to the great dangers of the voyage were more than counterbalanced by their numbers and their great size. Such ships would never have been built for any but the Indian trade. He laid great stress also upon the revenue, which the trade contributed in Customs Dues. To the accusation of damage to the English wool trade, he replied by a declaration that the East India trade weakened her European rivals more than it weakened England herself.

[1] E.g. *The Anatomy of Change Alley*, by A. Jobber, 1719.

"Whatever weakens or depopulates them, enricheth and strengtheneth England. And most certain is it that no foreign trade doth so work upon the manufactures of our neighbour nations as this trade of the East Indies; for the staple countries for silks and fine linens are Italy, France, Holland, Flanders, etc.[1]" Moreover, although he admitted that the East India trade did not provide a large market for wool, he showed that the Company exported £60,000 or £70,000 worth per annum, at a loss, and was endeavouring to found settlements in China and Japan, in order to secure a market for English cloth "in a climate not altogether so hot as most parts of India are[2]." If the English lost the East India trade, this limited market for her woollen goods would cease, "for neither the Dutch nor the French would enure the East Indians to our English manufactures, of which we have clear instance in the Dutch trade to Japan, where they industriously avoid introducing our English cloth[3]."

At the same time, it is only fair to say that the more intelligent writers were tentatively feeling

[1] Treatise of Φιλόπατρις, 1681: Somers Tracts, 1748 (Brit. Mus. 184. a. 4).

[2] An attempt was made to discover a north-west passage to the East in the hope that by this means a new market would be found for English woollen goods.

[3] Vide *A discourse of trade from England into the East Indies*, 1621, and *England's Safety in Trades Encrease*, 1641 (Sir Thomas Mun).

their way towards the true theory of national wealth. These men did their best to defend the Company against criticism based upon the assumption that the exportation of bullion was always prejudicial to the national welfare. They explained that bullion sent out of the country for commercial purposes was often the means of obtaining a much larger supply in the near future, and that in the case of the East India Company in particular bullion exported from England was invested in Indian goods which, when sold in Europe, brought in a much larger supply of the precious metals from the Continent than that which was originally shipped to India.

Again in a pamphlet of about 1704 we find an elementary conception of the doctrine of the Balance of Trade. The writer declares[1] that since the English use " Muslins, Romalls, and Callicoes, they (i.e. East India Company) have beat out the use of fine German linens, Silesian cambrics and lawns, which we had in return of our own woollen cloth, etc., which trade is now almost wholly lost, for the Silesians, when we would not take off their linen, could not take off our cloth, but were compelled by necessity to set up the making of woollen manufactures, with which they

[1] Somers Tracts (page 56) (184. a. 4 Brit. Mus.), 1784.—A true relation of the Rise and Progress of E. I. Co....and what endeavours have been used for and against any restriction, together with some remarks thereon. (1704 *circa.*)

now supply both themselves and other places." The writer also perceived the reason why the Indian goods were so cheap and could be used to undersell the continental manufacturers. "The Indians," he says, "have provisions and materials very cheap and work for a penny a day." The Company, too, must have had some idea of the balance of trade, when, in 1695, it declared that it was to the interest of this country "to wear East India goods, because cheap, and send our own to foreign markets where they may be sold to more advantage."

There is no doubt the East India trade did little for English industry, for silk, the only raw material imported for English manufacturers, was obtained with equal facility from the Levant. The trade in general did not react favourably upon the industry of the country, and, if anything, increased foreign competition. Consequently, it was, in the opinion of many contemporary writers, beneficial to the merchants engaged in it, but harmful to the community at large.

This contention was supported in no small degree by the fact that the resources of England itself were very incompletely developed. There was much to be done in reclaiming wastes and improving communications. But capitalists, instead of using their wealth for the national wellbeing in this way, were seen lavishing it in financing

dangerous expeditions to distant lands in order to supply luxuries to the wealthy. It was felt by many people that an enterprise which was characterised by such heavy risks must be harmful, and when the crash of the South Sea Bubble brought ruin to thousands of families the nation hastily demanded to be saved from the possibility of a repetition of these disasters on a larger scale, by the prohibition of the Indian trade. It is therefore correct to say that, in the closing years of the seventeenth century, the development of the East India trade appeared incompatible with the economic policy of Parliament and with the nation's industrial prosperity.

Child however not only succeeded in proving the advantages of the Indian trade, but he also secured a verdict from Parliament that "the Trade of the East Indies cannot be carried on to the National advantage by a Regulated Company, or in any other way than by a Joint Stock[1]." The government was convinced that a Joint Stock Company was superior to a Regulated Company, but as yet it did not perceive the possibilities for evil of any species of monopoly.

This controversy is closely connected with the struggle between the Company and the "Interlopers," who, in their opposition to the Company's

[1] Two Resolutions to this effect were passed by Parliament, 1691. Compare also the decision of the Commission of Trade, 1622.

privileges, took the law into their own hands. Throughout its history, there were always merchants ready to take advantage of the temporary eclipse of the Company's star to make private voyages to the East in violation of its exclusive rights, at the same time attacking its privileges with demands for Free Trade. By this, the Company's opponents meant a Regulated Company with fairly easy terms of admission. The unfettered competition of one man with another meant chaos to a seventeenth century mind. "An unregulated trade opened a gap and let in all sorts of unskilful and disorderly persons."

Such men were known as "Interlopers." Their methods caused the Company a great deal of annoyance and loss, so much so that it was often compelled to compromise the matter by admitting them to its privileges. They posed as champions of popular rights and pretended that their claims were justified by Constitutional Law. They declared it doubtful whether the mere creation of such Corporations lay within the limits of the Royal prerogative, and maintained that in any case a grant of a Charter by the Sovereign could not possibly confer a right to an *exclusive* trade. They were not alone in this contention, for there were many people who considered that Parliament alone could place those restrictions on trade, which the very existence of the Company postulated. They admitted that the King could create Corporations,

and permit them to carry on trade with corporate rights, but they denied that he could thereby prevent others from engaging in that trade. The Bill of Rights rendered it very difficult for the Company to substantiate its claims to judicial and political powers abroad on the strength of a Royal Charter. This point was greatly emphasised in the next century by the writer of the *National Mirror*. He declared that the only privileges which a King can grant to a Company are the right to maintain perpetual succession, to act like an individual in a corporate capacity, to hold lands subject to the Statute of Mortmain, to have a common seal, and to make byelaws binding upon themselves. No King can convey the power of exerting acts of sovereignty, nor can he grant rights, which are common to a whole people, to a few, thereby depriving all others of those rights. For this reason he declared that the Charters of the later Stuarts were all *ultra vires*. The King had no power to make laws himself, and therefore he could not grant that privilege to his subjects.

The supporters of the Company, however, urged that the important feature of the case was that the trade was "foreign." This involved treaties with other sovereigns and peoples,—a branch of government which was acknowledged by all to be the King's business. They also urged the plea of expediency. The position of the Company was

analogous to that of an inventor in modern times, who takes out a patent. It had "discovered" the trade, and had incurred great expense in propitiating the native princes. Therefore its members should in all fairness be allowed to enjoy the successes of their enterprise without molestation. The interlopers replied by taking their stand upon Law and Justice, declaring that "expediency" was no answer to a claim of "legal right."

After the Revolution the Company's rivals organised themselves into a new Company. It was founded by Child's personal enemy, Papillon, who was a strong Whig, and at once entered upon an active conflict with the old Company both in the city and in Parliament. In the city its leaders stirred up popular feeling by declaring that the treaty which the Company had just completed with the Moghul was a disgrace to the English name. The publication of the terms of this treaty by Papillon and his followers was all the more damaging to the old Company because Child had published a misleading account of the transaction in the *Gazette*[1]. They further attempted to assail the validity of the Company's Charter on the ground that the Crown could not grant a monopoly without the authority of Parliament. The question was carried to the Privy Council, but was decided

[1] May 11, 1691.

in favour of the old Company[1]. In spite of this favourable verdict the position of the old Company was very precarious. It was more powerful than its rival, but it was not nearly so popular. The old Company was strongly Tory, while the new Company and the country were Whig.

In 1690, on the strength of a recommendation by a Committee of Parliament[2] that the best way to manage the East India trade is "to have it in a new Company and a new stock," Papillon's party raised £180,000 for a New East India Company, and they were for the future alluded to in popular parlance as the "New Company." They had their headquarters in the Skinners Hall in Dowgate, and "the hostilities between the 'New Company' and the 'Old Company' soon caused almost as much excitement and anxiety, at least in the busy hive of which the Royal Exchange was the centre, as the hostilities between the Allies and the French King[3]."

In 1691 both parties presented petitions to Parliament, soliciting the Indian trade. The Ministry endeavoured to settle the matter by compromise, and brought forward a proposal to increase the capital of the Old Company by

[1] The question had been previously argued in the case of East India Co. *v.* Sandys (1683–85) (10 State Trials 371).

[2] Jan. 16, 1690.

[3] Macaulay's *History*.

£1,500,000, the holding of each proprietor being limited to £5,000. Child immediately perceived that this would involve the influx of so many interlopers and Dowgate men, that the present leaders of the Company would lose all their authority. He therefore refused to accept the scheme, and the Bill in which it was embodied was dropped after its second reading. Parliament however was irritated and vexed at Child's uncompromising attitude, and in 1692 the Commons petitioned the King to revoke the Charter of the Old Company and grant another to a new corporation "on such terms as to his Majesty's wisdom might seem fit." By this proposal Parliament definitely admitted the King's right to grant to a trading company a Charter conferring a monopoly of trade upon the recipients. William refused to do more than give the Company three years' notice in accordance with the terms of its current Charter.

Child now began to employ lavish bribery, and it was rumoured that considerable sums reached the ministers, and even the King. When all was ready, he delayed to pay a tax recently levied upon the great trading companies, thereby forfeiting his Charter. The ground being well prepared, he immediately set about securing a new Charter before Parliament reassembled. Great sums were spent in donatives. There is an entry of £80,000 in the Company's books specified as

"Sundry charges on account of the Charter." It was well for the Company a few years later, that the proprietors trusted Child so completely as to permit such vague accounts. Under these circumstances, it is only to be expected that Child and his friends were successful. A Charter was drawn up in accordance with their wishes, although it contained provisions not very different from the Bill which Child had recently refused so curtly. In fact popular feeling was so strongly opposed to the Company, that the ministers were obliged to impose some restrictions, in order to allow them to meet Parliament with a bold front in a few weeks' time.

The Charter of 1693 confirmed the previous Charter, but declared the Company's privileges revocable, if it did not submit to further regulations imposed upon it within a year. Accordingly, two further series of regulations were subsequently issued. The capital was doubled by an addition of £740,000. No person was to hold more than £10,000 and each £1,000 conferred a vote. The Company was further obliged to supply a given amount of saltpetre at a fixed price to the government, and to export at least £150,000 worth of English goods yearly.

This was a very modified success for Child, but still it was success, and his opponents, as a last resource, put forward the great test case about the Royal prerogative. The case was argued before

the Privy Council, and was finally decided for the Company, although not without a suggestion that the Governor had employed once more his golden weapons.

Success now led the Directors to commit a serious tactical error. They immediately used their power to detain a ship, called the "Redbridge," which was lying in the Thames, destined, it was alleged, for Eastern waters. The legality of this detention was questioned, and the matter was brought up in Parliament. The House of Commons thereupon declared, without a division, "that all subjects of England have equal rights to trade to the East Indies, unless prohibited by Act of Parliament." "It has ever since been held," says Macaulay, "to be the sound doctrine, that no power but that of the whole legislature can give to any person or to any society an exclusive privilege of trading to any part of the world." As a matter of fact this declaration had little practical result, for Parliament was not anxious to quarrel with the King about the East India Company, and the Company, by tactfully refraining from violence at home, and instructing its agents abroad to show the utmost rigour against all interlopers, virtually retained its monopoly. Even if Parliament had wished, it would have been very difficult to examine into the actions of the Company's agents, for the distance was so great, that, before the cases could

be tried, they would be at least two years old. Nevertheless, although the Company continued to enforce the privileges granted to it by Royal Charter, yet, constitutionally, the question of continuing those privileges had been removed, once and for all, from the Council Chamber to Parliament.

This decision, which is one of the most memorable events after the Bill of Rights in the history of Parliamentary Government of England, very soon bore fruit. Just at this time the formation of the Scotch East India Company, with full rights based upon an Act of the Scotch Parliament, led the Old, or "London," Company in view of the late decision to petition for a Parliamentary Charter. In this they were unsuccessful, because the ministers feared lest the Company should absorb capital which they hoped would support the newly suggested Land Bank. Three years later, however, when the Treasury was severely strained in order to provide funds to complete the French war and the Peace of Ryswick, the Old Company offered to lend £700,000 at 4% in return for a Parliamentary Charter and a complete monopoly of the East India trade. The Land Bank had proved a failure, while the Bank of England, which had only recently been incorporated in return for a large loan, was unable to subscribe further funds. The New Company

immediately replied with an offer of two millions at 8 % and their bid was accepted. The Government was enticed by the larger sum of money, although the rate of interest was double, and accordingly, in June 1698, the New Company was incorporated by Act of Parliament under the name of the "General Society." By the articles of association it was provided that all subscribers should be allowed to trade independently, to the amount of their subscription, and that any, or all, of them might combine together under a joint stock, if they pleased. Thus Montague's scheme created a Regulated Company on the same principles as those upon which the Bank of England had been formed. A further Charter incorporated most of the subscribers as a Joint Stock Company under the name of the "English Company." The "General Society," of which this formed the chief part, was granted exclusive rights of trading, subject to the concurrent rights of the Old Company until September 29th, 1701, when the three years' notice expired.

Child attempted for some time to prevent the consummation of the scheme. But, being unsuccessful, he executed a master-stroke by securing for his Company the preponderating influence in the New Company, with a subscription of £315,000. By this act of genius, Child, to quote his own

words, "kept the way open to all our property and possessions in India[1]."

For the next year the attitude of the two Companies was extremely hostile. In India their representatives quarrelled violently. The agents of the New Company were armed with the Royal title of Consul, and, as such, demanded precedence over the agents of the Old. These latter replied by declaring that their masters' exclusive rights continued until Michaelmas Day, 1701. At home the Old Company, though not so popular, was far richer. Its rival was exhausted by the loan to the Government, and was obliged to wait for the first payment of interest in order to equip a voyage. The Old Company, on the other hand, showed renewed activity and made a call upon its proprietors of 25 % on their holdings to liquidate its bonds and debts. The object was undoubtedly "bluff" in order to secure amalgamation upon favourable terms. For in a letter to Madras at this date we find a prophecy that the New Company's stock will doubtless fall, and "by that time it is probable we may both be weary of fighting and giving the world occasion to laugh at our folly, and may then shake hands and be friends, when they have smarted as much as they have made us for several years past[2]."

[1] MS. Letter Book, No. 10.
[2] Letter to Madras, Aug. 26, 1698.

Meanwhile the New Company committed the great error of employing as its agents men who had been dismissed from the service of the Old Company. Its position did not improve, and at the suggestion of a petition from the Old Company to be incorporated as a Joint Stock Company on the strength of the subscription of £315,000 to the General Society, its stock fell 5 % in three days. After two attempts this petition was granted. When the Bill was taken to William for his signature by the Directors and city magnates in their robes of office, the King took occasion to remark: "Gentlemen, you know my mind already. I am for Union. It would be most for the interest of the Indian Trade." In this he was perfectly correct, for amalgamation was now clearly the only possible solution. The competition of the several traders and companies caused Indian goods to fall in price, thereby indirectly affecting the industrial prosperity of London, Norwich and Coventry. In fact, all the miseries of the open trade of Cromwell's government were renewed upon a more extensive scale and with increased violence.

After considerable delay, the committee appointed by both Companies came to an agreement, and the terms were confirmed by the General Courts on both sides on April 27th, 1702. By this union, which was rendered legal in an Indenture Tripartite between the two Companies and Queen

Anne, the "United Company of Merchants trading to the East Indies" secured a complete monopoly of trade. Furthermore, their privileges were based upon an Act of Parliament as well as upon the Royal favour, and when, in 1708, by Godolphin's famous award, the union of the two Companies was completed in the minutest detail, the East Indian merchants entered upon a career of unrivalled prosperity and power. The history of the Company in the eighteenth century traces the gradual loss of these unique trading privileges and the concurrent growth of territorial and sovereign rights. In 1765, when Lord Clive took over the revenue and government of Bengal, the change foreshadowed by the grant of Bombay in 1668 was completed, and the Company became a sovereign power rather than a trading corporation. Finally, in 1813, the trade monopoly was rendered unnecessary by the excellent political institutions and methods of government, which the Company itself had given to India. The trade with India was accordingly thrown open, leaving the Company of merchants rulers first and traders second, sharing their commercial privileges with all British subjects equally.

CHAPTER II

1709—1765

THE COMPANY IN LONDON

By the union the principles of Monopoly and Joint Stock were both ratified, and the privileges of the Company were now based upon the sanction of Parliament, as well as upon a grant from the Crown. More exactly, its privileges were ratified by a Charter, which the Sovereign, by Act of Parliament, was permitted to grant. The change is well shown by the motto appended to the arms of the United Company. The Old Company had been content with "Deo ducente, nil nocet," but the United Company boasted the double sanction in the words: "Auspicio Regis et Senatus Angliae."

Although the union had satisfied the Whig interlopers of Dowgate, yet there were still many people who distrusted the Joint Stock Monopoly. These men were for the most part merchants of Bristol, Hull and the other English sea-ports. Their opposition was based upon the injustice of allowing a monopoly to the merchants of London alone.

But, as has been before pointed out, the stock was purchasable in the open market, and therefore the merchant of London was no more privileged than his rival from Bristol or elsewhere. The Company was obliged to have its Head Offices somewhere, and London was the most convenient place. Except that the provincial merchant was further from the Court-room, he was on an equality with the merchant of the Metropolis. There was also some opposition from the weavers of Spitalfields and other centres, and from the London silk merchants. This opposition was simply the self-expression of a vested interest, and, as Child said in his Φιλόπατρις tracts, "Must one trade be interrupted because it works upon another?...The shoemakers may pull down the cobblers; those that make red-herrings destroy those that dry sprats, because quantities of the latter pull down the price of the former."

To satisfy such complaints, Acts of Parliament[1] had been passed in 1700 prohibiting the wearing of India-wrought silks, and laying heavy dues upon their importation, although Davenant and others opposed their policy on economic grounds. "Few laws," he says[2], "relating to trade are the mark of a nation that thrives by traffic."

The Directors alleged that it was these Acts

[1] 11 and 12 Guil. III, cc. 3, 10.

[2] *Considerations on the East India Trade*, 1701.

which compelled the two Companies to amalgamate. This was probably an exaggeration. The King's constantly stated wish was quite sufficient to render union inevitable, and, when we remember that a struggle with France in Europe appeared imminent, it seems incredible that the negotiations were protracted for so long.

The terms of the union were framed with the object of securing complete equality between the two signatories. The Court was to be composed of twenty-four Directors, or Managers, one half nominated by each Company, and was to have complete executive control of trade. Each Company was to furnish half of the annual exports. The London Company was to purchase at par as much of the stock of the English Company as would make their holdings equal, while the English Company was to pay £130,000 to the London Company in order to equalise the capital invested in fortifications, settlements, and dead stock generally.

The chief difficulty, and one which received no satisfactory solution, was that both Companies had considerable amounts invested in ships which had sailed previously to the union. After considerable negotiation it was decided that the factors of each Company, while combining to deal with new investments on behalf of the United Company, should deal separately with the previous investments,

and that seven years should be allowed for winding up the separate interests of the two Companies. But it was impracticable to expect that men, who had received the bitterest insults and the severest treatment at each other's hands, would be able to fill a position requiring so much tact and consideration, as that whereby they were expected to be partners in one transaction and rivals in another.

As the efficiency of the union depended upon the manner in which the agents carried out their difficult task, it is superfluous to say that it was a failure. The rivalry of the two Companies was such that it would have ruined both of them in the days of Philip III. It was only the absence of any powerful European rival that prevented the disaster which would otherwise have been inevitable. It was fortunate therefore that in 1707 the Government was in financial difficulties, and demanded a loan of £1,200,000, without interest, from the Company. The United Company was afraid lest a second Papillon should come forward, and offer this loan in exchange for the much-bandied East India monopoly. The two sections therefore agreed to lay aside their differences, and to submit their individual claims to arbitration. This task was undertaken by Earl Godolphin, and upon his decision complete amalgamation was based. The details of his award are unimportant. It is sufficient

to say that he adjusted the assets and liabilities of the two Companies with great impartiality, and that by his decision few people were rendered richer or poorer than they were before. Henceforward the whole of the property and all the debts of the two Companies abroad were vested in the United Company.

The complete amalgamation was rendered legal by an Act of Parliament[1], which granted exclusive[2] privileges to the Company, but reserved to the Crown the right to give three years' notice of withdrawal, such notice not to be given before March 25th, 1726, or until repayment of the loan. In order to meet the demand from the Government, the Company was empowered to borrow a million and a half under its common seal, or to call in moneys to that amount from its proprietors.

This Act is of interest for two reasons. From the point of view of the East India Company, it is important by reason of the clause concerning the repayment of the loan. The Company's existence was prolonged beyond the period of expediency, because no Government was able to cope with the problem of raising a sum sufficient to redeem the loan.

[1] 6 Anne, c. 17.

[2] The stock of the separate adventurers, who had subscribed to the General Society, but had never entered the English Company, was to be paid off with three years' notice after 1711. This amounted to £7,200.

It is also important because the addition of £1,200,000 bearing no interest, to the £2,000,000 already lent at 8 %, made a debt of £3,200,000 at 5 %. This is the first instance in English financial history of the application of the principle out of which has grown the system of "consolidated funds," hence called "Consols."

With reference to the terms of the union, it is difficult to say which Company, if either, secured the advantage. It is unquestionable that the Old Company was much the more extensive enterprise. It spent £600,000 per annum in financing its trade, while the General Company was from the first hampered by want of capital, and no ready money was available until the first interest on the Government debt was paid. The dead stock in Bengal belonging to the Old Company was five times as large as that of the New Company. From its greater experience it had few bad debts, while the English Company had debts in Hughli alone estimated at £7,000[1]. Furthermore, when trouble arose with the Moghul Emperor, the Old Company secured much better terms than the English Company, and it is perhaps no exaggeration to say that this success was neutralised by the union, which was announced some months later.

At the same time the legal right belonged to

[1] The amount was 70,000 rupees, and a rupee is here reckoned at two shillings.

the New Company. The United Company, while it professed to have complete continuity from 1600 in order that it might profit by the arrangements which the experienced servants of the London Company had made with the native princes, was obliged to trade under the Charters granted to the New Company. The superior qualities and larger experience of these servants were fortunately recognised by the United Court. The Consular powers were withdrawn, and the original agents were for the most part continued in their duties, where they accepted the situation with great loyalty and with cheerful anticipation of the future. "My gratitude as an Englishman obliges me to pay all deference to the blessed memory of King William, and to remember that great saying of his, to the French King's Plenipotentiary at Ryswick, upon concluding the peace; ''twas my fate and nott my choice that made mee your enemy'; and since you and my masters are united, it shall be my utmost endeavour to purchase your good opinion and to deserve your friendship[1]." So wrote Governor Pitt to the Directors of the United Company in 1702. Such being the prevalent opinion among the agents in India in 1702, the outlook was indeed promising when, in 1708, all possible cause of disagreement was removed.

From the constitutional point of view this

[1] Letter dated October 3rd, 1702.

period is comparatively unimportant. In 1711[1] it was provided that the privileges of the Company were not to be determined by the repayment of the two millions lent to the Government. In 1720 a further concession was granted. The Court was empowered to borrow money under the seal of the Company to the extent of the Government debt, but special clauses were included to prevent the Company undertaking "banking" in any form[2].

The only crisis in the period was in 1730, when the question of continuing the exclusive privileges of the Company was again brought forward. Owing to the system of private trade, the servants of the Company were able to retire with considerable fortunes after a very few years in India. Consequently the popular idea of the wealth of India was exaggerated, and once again a universal complaint was made that the jealousy of the Company prevented the British people from sharing in the untold wealth of the East. Proposals were accordingly made to buy up the Company by subscription. The trade was then to be thrown open to all Englishmen, but the subscribers were to be enrolled as a Company, whose business it should be to maintain the forts and settlements

[1] 10 Anne, c. 35.

[2] This Act was due to the anomalous position of the East India Company, which had most of its capital lent to the Government. In this it resembled the Bank of England, which has always been allowed to issue notes against the security of the Government debt.

abroad, in return for which they were to receive a percentage on the trade[1]. To secure the payment of these dues, it was provided that every trader should have a license from this new Company. It was hoped that in this way the validity of the chief argument in favour of the existence of monopolist companies would be materially impaired.

In support of the proposal the success of the experiment of free trade with Africa was quoted. Great advantages had resulted from this step, and a much larger market for English goods had been secured. It was claimed, therefore, that more men and ships would be employed in India, and that the price of Indian goods would be lowered. In particular, tea would be supplied at such a price, that the prevalent practice of smuggling would no longer be profitable to the foreign companies, who imported large quantities with the special object of "running" it into England. Great stress was laid upon the fact that, in spite of the Company's monopoly, Englishmen were prohibited, under heavy penalties, from participating in enterprises under the sanction of foreign powers, while a great part of the East India stock was held abroad. Thus Englishmen acquainted with India were often prevented from employing their knowledge and experience for the advantage of their country

[1] 1 % on exports to India, 5 % on imports from India.

or themselves, while foreigners were allowed to share in the profits of the English trade.

As a result of this suggestion three petitions were presented to Parliament by the Merchants of London, Bristol and Liverpool, respectively. The press supported Free Trade, and a pamphlet war ensued. The Company, which was fortunately supported by Sir Robert Walpole, the chief minister, replied by stating that competition in the Indian trade would so cut down profits as to ruin all concerned therein. Its supporters also brought forward a very doubtful argument, by declaring that the Indian trade was too important for experiments to be risked. It was hazardous to divert a prosperous commercial enterprise into new channels. The trade might easily decrease, and thereby the King's receipts at the Custom House would be diminished. It was quite uncertain that the proposed subscription would fill up in time, and, even if the amount were forthcoming, it was questionable policy to leave a present certainty for a future uncertainty[1]. The position of the Company must have been very precarious, if the strongest argument which its supporters could adduce in its defence, was that, if a thing is important, no attempt should be made to improve it, for fear the attempt should have the opposite result.

[1] Vide Boyer's *Political State*, 1730, XXXIX.

However, when the question was debated in Parliament, Walpole secured a victory for the monopolists. But the victory was only secured at a price, for once again Montague's precedent was followed. The new Charter[1] extended the Company's privileges until 1766, in return for a loan of £200,000 without interest, and on condition of a reduction of the interest on the previous loan from 5 to 4 %. A further extension (until 1780) was granted fourteen years later in return for an additional loan of £1,000,000 at 3 %, and in 1750 the interest upon the original debt of £3,200,000 was reduced to 3½ % and finally to 3 %.

In this way the country in general secured a share of the great profits which the Company must have made. As money became cheaper the ordinary rate of interest fell. Some species of conversion for the East India debt was inevitable. The alternative, to borrow money at the current rate to pay off the Company's loan, was not to be thought of, because the Government could not possibly contemplate such a huge organisation with equanimity, unless its dependence upon the will of the nation was secured by a strong financial bond. It was the opinion of most people that a monopolist company was requisite to deal with the Indian trade, but it was also necessary for the Government to secure a share of the advantages

[1] 3 Geo. II, c. 14.

of the trade for the nation at large. The older the Company became, the greater the share which the country could justly claim. For the capital spent upon the unproductive work connected with the early organisation of the trade had already earned a considerable reward for the original adventurers.

Throughout this period the attitude of the Government to the Company is most interesting. Whenever an opportunity offered, Parliament imposed very severe financial burdens upon it, but, until 1766, no attempt was made in any way to control its policy or its actions. Against all other interests and all other nations it supported the Company in every way possible. From 1718 to 1732 four successive Acts were passed for increasing the stringency of the provisions against interlopers, and for penalising any attempt to support the Ostend Company. In 1754 provisions corresponding with the English Mutiny Act laid the foundation of the Indian army. Two Acts were passed granting the Company the right to appropriate booty and plunder captured in the course of any wars, undertaken within the limits of its Charter for the defence of trade and commerce; and in addition to these military privileges, the Company was granted certain judicial functions. In this way Parliament itself granted to an oligarchy of twenty-four citizens many of the prerogatives,

for which its predecessors had fought so keenly with the Stuart Kings.

With regard to the prosperity of the Company it may be said that, on the whole, the trade underwent little variation for some years after the union. Business became regular and uniform. The capital of the Company was now a fixed and definite sum, and its proceedings were reduced to an established routine, or a series of operations periodically recurring. In 1730 seventeen ships sailed for India. This was roughly the average number, although the constant wars of the next few years were responsible for an increase in the exports due to the necessary military and naval stores. At home the sales remained very constant; in 1730 they amounted to £1,940,996, and in 1744 to £1,997,506. Although war was raging in the Carnatic, in the other Presidencies no event of importance occurred. In Bengal, this was largely due to the action of the famous nawab Ali Wardi Khan, who, by prohibiting the French and English from prosecuting their hostilities, rendered a steady development of trade possible.

This equable state of affairs continued until 1760, when the Company experienced a phase of financial crisis. The Directors failed to realise the increased expenses involved by their military enterprises, and the cost of governing those territories which had been granted to them by

the native rulers. These responsibilities were increased by Mir Kasim's cession of Bardwan, Midnapur and Chittagong. Clive moreover was returning to England. Hence the situation in India was both novel and complicated, while the only man competent to deal with its difficulties was leaving the country, so that it is no matter for surprise that the years from 1760 to 1765 formed a period of signal misrule in Bengal, and therefore of financial embarrassment at home.

The chief cause of this financial trouble was the system of drawing bills upon London. The Presidencies borrowed money at interest in India and at the same time drew bills upon London. All the income of the settlements was needed to pay the interest upon the Indian debt, and consequently the shipments for England fell materially in value. So, with decreasing sales in London, the Directors were called upon to meet bills for large amounts, which had been drawn upon them by their agents. They wrote frequent protests to their servants, "If you had studied to ruin our credit, worse measures could not have been adopted. We can seldom be in a position to answer large drafts at a short date[1]." But it was of no avail. The bills continually increased in amount, and the Directors were obliged, on more than one occasion, to prevail upon the bill brokers to grant renewals.

[1] MS. Letter Book.

In this way the interests of London and the interests of the agents became antagonistic.

The quarrel was further increased by the question of private trade and the revolutions in Bengal. The questionable character of the Company's action in these revolutions called the attention of the English nation once more to the East Indian monopoly. The attack was prolonged for several years, and did not bear fruit until 1767, when a further curtailment of the Company's privileges was effected. Much abuse was levelled at the Directors of the Company. These men were in a very difficult position. They were the responsible head of the executive, but in times of stress and crisis their plans were often defeated by the obstinacy of their agents abroad. "We are the Company," they wrote, "we rule: you serve and obey[1]." Such reproofs were frequently delivered, but they were as frequently ignored.

By the constitution of the Company the Proprietors were supreme, and in the early years of the century London was unassailed as the centre for the management of the Company's affairs. In 1688 there were only eighty Proprietors; in 1756 there were five hundred. All legislative power was vested in the Proprietors assembled in a General Court. Four of these Courts were held yearly, and, at the time of Godolphin's award,

[1] MS. Letter Book.

£500 of stock conferred a vote upon its holder, but no person could have more than one vote. Later the qualification was raised to £1,000.

The executive was in the hands of a Court of Directors composed of twenty-four persons. They were elected yearly and were required to hold £2,000 of stock. The Directors met whenever the affairs of the Company rendered it desirable, and were in a similar position to that in which the directors of a modern public company stand. Therefore, although the Court of Proprietors was in theory supreme, the management of the Company was really in the hands of an oligarchy. This oligarchy conducted the affairs of the Company in accordance with its personal interests, and without serious apprehension of interference from the Court of Proprietors. As in the case of the Bank of England, the oligarchy of the Directors has always prevailed. This state of affairs, which is inevitable in all public companies to a greater or less degree, caused Mill to criticise severely the constitution of the Company after the union. But in this he was unreasonable. It is impossible for the general meeting of shareholders effectively to control the administration of a public company. At the same time the tendency of modern company law has been to curtail the privileged position of the directors, and to protect the shareholders against unscrupulous persons connected with the

management: but the *executive* of a company is vested absolutely in the directors, perhaps more so now than it was in the eighteenth century. For example, on more than one occasion the General Court attempted to pass a dividend larger than that proposed by the Chairman. Parliament was obliged to legislate to prevent this unwarrantable piece of finance, and in the Companies Acts it is now expressly stated that no dividend can be declared *in excess* of that recommended by the directors.

The business which was transacted at India House was so complex that the Directors found it convenient to divide themselves into Committees. There were ten of these bodies, of all which the Chairman was a member *ex officio.* One committee was devoted to legal business and to the direction of all litigation in which the Company was from time to time involved. The chief committee was that of Correspondence, which transacted the primary and governing business of the Company, and to which all the rest were secondary and subordinate. For trade, there was the "Committee of Warehouses" to supervise the imports, deciding what goods should be imported, and to deliberate generally upon means of promoting trade. The "Committee of Buying" superintended the purchase of the standard articles of export, such as lead and woollen

goods. All these committees had offices in the East India House in Leadenhall Street.

It is said that the Old Company first met at the Nag's Head Tavern in Bishopsgate. In 1701 they rented from Lord Craven a house in Leadenhall Street with a tenement in Limehouse Street. This is probably the house of which a unique print exists in the British Museum collection. The old East India House was built in 1726, and several parts of it were retained in the new buildings of 1799. In the *History of London* by John Noorthouck (1773) there is the following description of East India House:—"The front, which is but narrow, is supported by six Doric Pillasters on a rustic basement storey: there are two systems of plain windows in the intercolumniations, and the top is finished with a balustrade.... The house however, though small in front, extends far backward, and is very spacious, having large rooms for the use of directors and offices for the clerks. It has a spacious hall and courtyard for the reception of those who have business, or who attend on the Company on Court Days, which are every Wednesday. There also belongs to it a Garden with Warehouses in the back toward Lime Street, to which there is a gate for the entrance of carts to bring in goods. These Warehouses were rebuilt in a very handsome manner in the year 1725, and are now greatly enlarged. The Company have likewise

warehouses in Leadenhall Street, Fenchurch Street, Seething Lane, and the Still Yard, besides cellars for pepper under the Royal Exchange."

Its offices were therefore commodious and impressive for the period. Inside the building, the room of most importance was the sale room. The west end of this room was circular with steps for bidders at the other end[1]. All goods imported by the East India Company were sold by auction at regular intervals. The system adopted was that known as the "candle-auction." An inch of candle was set burning, and the best bid received before the candle burnt out was held to be successful. Frequent references to this method of sale are found in Pepys' diary, which show that it was the common practice before the eighteenth century. The sales were very well attended, and as the candle burnt low the excitement must have been intense. The tea and indigo sales were especially noted for noise and rowdyism. On one occasion a message was sent to the Company by the King, declaring it beneath the dignity of the Crown to buy "at the candle," and demanding sale by private treaty. By its later Charters most of the goods supplied by the Company to the Government were specified both in quantity and price.

The retail dealers, who purchased goods at the

[1] An excellent picture of the new sale room 1799) is to be found in Ackermann's *Microcosm of London*.

Company's sales, sold them in their shops which were known as "China Houses." These houses were fashionable resorts, and in many cases disreputable rendezvous. Ben Jonson in his play *Epicoene* speaks of "Watching when ladies are gone to the China Houses[1]." Furthermore in the *Spectator* there is a letter purporting to come from one Peter Motteaux, a "China-merchant" in Leadenhall Street, which contains a full description of his goods and a general invitation to view them[2].

In the time of its prosperity the Company employed nearly 4,000 men in its warehouses, and, before it lost its monopoly, kept as many as four hundred clerks. The buying office controlled the fourteen warehouses, and so governed the home market. Later in the century it often held as much as fifty million pounds of tea in store; and over a million pounds of this commodity were frequently sold in one day at its sales. East India House was therefore a great centre of activity. Its officials were among the most important men in the City. Even its clerks had a status and reputation, which have been well portrayed by Charles Lamb, who was himself in the service of the Company for thirty years[3]. The quantity of letters and despatches received at India House can

[1] *Epicoene*, Act I, Sc. 1. [2] *Spectator*, 288.
[3] *Essays of Elia*.

be measured somewhat by the fact that from June 1793 to 1813 they made 9,094 large folio volumes.

But the magnates of Leadenhall Street were not always above reproach. The uneducated parvenu has always excited the bitter sarcasm of less successful men. From the middle of the century the rich "Nabob" figures in all comic fiction, and the presence of such a man upon the boards of a theatre was certain to secure a mirthful applause from the audience[1]. Even the Court of Directors was ridiculed. At the time of the grant of a "Jagire" to Lord Clive, there appeared a humorous description of a debate at India House, in which an illiterate alderman delivers an absurd speech upon "Lord Vulture's Jaghire[2]." This is avowedly a lampoon, but it suggests that the type had degenerated since the days of Sir Josiah Child. But while we smile at the solecisms of these men, we must remember that it was during the eighteenth century that India became a part of the British Empire, and that it was the unscrupulous "Nabob" and the illiterate alderman who secured this jewel for us at the expense of the French.

The Conquest of India, as it is generally called, is beyond the scope of this essay, but it is necessary in passing to say a few words about it. As Seeley has so forcibly pointed out, the keynote of the

[1] Cf. the farce by Samuel Foote, entitled *The Nabob*, 1772.

[2] Debate in the Asiatic Assembly, London, 1767.

eighteenth century was the struggle between France and England for the territories discovered in the sixteenth century. As early as 1700 we find Davenant writing, "France stands by, subtle, insinuating and liberal, ready either to court or to force a favour." The duel took place in India during the period dealt with in this chapter, and the agents of the respective companies continued the fight unceasingly, even when their mother countries had called a truce. Moreover in the early years of the struggle it appeared likely that the ultimate victory would rest with the French. For the great facts in the history of India are the weakness of the native hordes in the presence of European arms and European discipline, and the possibility of imparting this discipline to the natives themselves. Both these facts were first discovered by the French. The first sepoys were organised by Dupleix. And it was this great imperialist who endeavoured to found a French Empire in India, by intervention in the quarrels of the native races. "Nothing great that has ever been done by Englishmen," says Seeley, "was done so unintentionally, so accidentally, as the Conquest of India[1]." The English Company put trade and dividends first, and unconsciously conquered an Empire, while the French, led by politicians like Dupleix, aimed at Empire, not at commerce, and thereby lost both.

[1] Vide *The Expansion of England*, by Sir J. R. Seeley.

But though accidental, the success of the English was by no means inexplicable, and might in a large measure have been predicted. Sir Alfred Lyall, in his *Rise and Expansion of British Dominion in India*, lays great stress upon this point and declares that our success was due, in the main, to the supremacy of the British Navy. At the same time neither the Company and its agents nor Dupleix and the French foresaw that the final result of the struggle was predetermined and that the Company's policy of armed intervention for commercial purposes alone was ultimately to be more successful than the definitely imperialistic tactics of its opponents.

India was only a geographical expression; there was no Indian nation. When the European settlers first appeared, anarchy prevailed throughout the country. The anarchy was modified to some extent by the Moghul Empire, but even this organising force failed to reach the Deccan, and the existing institutions were only worthy of the name of Government, when contrasted with the absolute anarchy which succeeded the breaking up of the Moghul rule. Such being the case, a group of European settlers, with a rich Company to support them, had a better chance of securing supremacy than any other of the discordant units of which India was composed. It was therefore no matter for surprise that India became subject to a

European power. The important fact about the years between 1740 and 1762 is that during this period the English vindicated their right to subdue India at the expense of the French. The reason of their success is not apparent at once. It is probable that the close connection of the French Company with the French Government gave the verdict to the English. When once the French Ministry took the Company under its protection, it followed that the wars between England and France should be reproduced in India. Dupleix was compelled to attempt the destruction of British settlements, while the armies of the English Company were avowedly for the protection of trade. Consequently, when war was declared with France, the English attacked the trade of the rival Company. The French attacked the English settlements, captured Madras, but were obliged to restore it at the peace of 1748. Their victories bore no lasting fruit, and their trade was utterly destroyed. The French Company, being almost entirely dependent upon the French State, was ruined because the Government at home did not give adequate support, when it was most needed. Clive received assistance from the English Governmen just when the crisis came.

The victory of Plassey left the ruler of the richest province in India dependent upon the English Company; the fall of Pondicherry in 1761

almost entirely destroyed the hopes of French domination; and in 1763 the English were supreme in the Persian Gulf, on the coast of Arabia, in the Coromandel, Malabar and Bengal. They were therefore raised already to the position of the most important of the sovereign states in India.

The period from 1748 to 1765 is the era of Clive. He was the first of the famous founders of our Indian Empire. He deserves the title doubly, for it was he who destroyed the French influence and established British supremacy on the East Coast from Calcutta to Madras, and it was he who transformed the Company from a trading association into a sovereign power, by advising and completing the transference of the Diwani of Bengal to the Company in 1765.

In this year he was sent out from England a second time to restore order in the Company's settlements, and to enquire into the alleged corruption of its agents. On his arrival he found the Company's affairs in a terrible condition. His genius devised radical improvements, but he was not supported by the Court of Directors at home. However, they consented to the great step of "standing forth as Diwan," the importance of which cannot be exaggerated. By it the Company made a clear profit of £1,700,000 per annum, and secured a territory about equal in extent to the kingdom of France.

CHAPTER III

PRIVATE TRADE AND THE COMPANY IN INDIA

The discovery of a route to the East round the Cape of Good Hope provided a new and cheaper method of obtaining those Oriental products which Europe had learnt to appreciate. The old route had been overland to the Levant, and consequently it had only been possible to traffic in such commodities as had a value which was large in proportion to their bulk. The great importance of the discoveries of the early sailor adventurers was due to the fact that they diverted the course of trade, and thereby moved the centre of the commercial world from the Mediterranean westwards. Italy and the Levant yielded place in turn to Spain, Portugal, the Netherlands, and England. But it was a long time before the merchants realised that the use of ships rendered it profitable to deal in goods of less intrinsic value, and it was only to be expected that the East India Company should endeavour at first to satisfy the demands for those commodities, which the overland trade had trained the popular mind to

associate with the East, and that its first settlements should have been in those islands, which were named after the spices they produced. It was not until after the massacre of Amboyna that the Company turned its attention from the Spice Islands to the mainland of India, whence silks, cottons, and costly fabrics formed the staple articles of commerce. Henceforth the English gradually made good their footing along the coast and founded settlements as far north as Bengal.

The great plain of Northern India is divided from the adjoining Asiatic lands by the Himalaya Mountains and their Western and Eastern offshoots. The Eastern portion of this plain, comprising Bengal, Bihár, Oudh and Rohilkhand, is occupied by the valley of the Ganges and its tributaries. It is very fertile, and is provided with a good river system which simplified the carriage of merchandise. Consequently the Company's settlements and its sphere of influence had a tendency to develope along this great river valley; throughout the century, in spite of constant war, the Bengal Presidency was the most prosperous and the most important of the Company's settlements.

The necessity for a good harbour gave to Bombay the superiority in the West. It was the only port in India, with the exception of the Portuguese harbour of Goa, which was suitable for ships-of-the-line. The original object for which

the western factories were founded was to exploit the trade with Persia and Arabia, although the West Coast of India was an important cotton district. Surat which was the most convenient centre for the Arabian and Persian trade was the earliest settlement of importance on this coast, but before long the superior claims of Bombay were recognised and the seat of government was transferred thither.

Many attempts were made to secure a trade with Persia itself. Factories were founded at Bushire and Gombroon in the Gulf. But the agents at these places were always under the control of the officials at Surat, and later at Bombay. The Persian trade never became of great importance, although it was generally prosperous and contributed largely to the income of the Western Presidency.

The Peninsula of India is dominated by the central plateau of the Deccan. On the West there is only a very narrow strip of low-lying land between the sea and the mountain range known as the Western Ghâts. Consequently, the West Coast offered little opportunity for commercial expansion. From the Western Ghâts the Deccan slopes gradually away to the East, where it is terminated by the Eastern Ghâts, and the river system of the central plateau flows to the East where it finds egress through passes in the

mountains. Thence to the sea there are vast littoral tracts of great fertility, which compose the Northern Circars and the Carnatic. These fertile regions soon attracted the attention of the Company, and the district ultimately attained sufficient importance to warrant the exaltation of Fort St George to the rank of a Presidency.

A glance at the map of India in 1813 will show at once the great effect of the geography of the continent upon the development of the Company's sphere of influence. The valley of the Ganges and the fertile plains of the East form the largest area of British rule, and it was here that the Company first embarked upon its political phase in 1765. On the West, however, where the conditions were less favourable, little progress was made, and with the exception of Bombay, Surat and Calicát there were no settlements of importance.

With regard to the climate of India, it is difficult to generalise. Extending as it does over more than 20° of latitude, India has a very different climate in the North from that in the South. There is however one salient point of great importance. Unlike all the other portions of the British Empire India cannot be described as a Colony, for the climate is an insuperable barrier to the permanent settlement of Europeans. With few exceptions European children cannot be educated in India. Therefore, all Europeans are prevented from

considering India as their home. They are always "sojourners in a far country," who look forward to the day when they shall return home with a competency, and enjoy the delights of family life in a congenial climate. This fact is of the greatest importance in the history of India. It is the underlying cause of the constant disputes between the Company and its self-seeking agents. No young man entered the service of the Company with the idea of finding a new home, but, from the moment that he was appointed a "Writer" in the service, his only ambition was to obtain riches as speedily as possible, and to return to England a gentleman of leisure[1]. What wonder then that throughout the eighteenth century constant complaints of the corruption, peculation, and general dishonesty of the agents are to be found in the Letter Books of the Company!

The attitude of Leadenhall Street to India was originally based upon purely commercial considerations. Even in the early part of the eighteenth century commercialism was the dominant factor in controlling the policy of the Directors. It was a Company of Shopkeepers, who raised up an Empire of manufacturers and customers, in order

[1] The servants of the Company were divided into four grades. Each man on his arrival was a "Writer" for five years. He then became a "Factor" for three years, a "Junior Merchant" for three years, and finally a "Senior Merchant."

to extend their sales and profits. At the time of Clive's second mission, however, a schism arose in the Court, which heralded a fundamental change in the character of the Company. One party were for trade alone, the other supported Clive in his proposal to accept the Diwani of Bengal, and thus incur the responsibilities of a political sovereign.

In 1761 the Court wrote to its agents in India, declaring that trade was to be combined with "warfare, fortification, military prudence, and political government." They were beginning to realise that the break-up of the Moghul Empire offered vast opportunities to the trader, who was both soldier and politician. But when this letter was written there was no idea of conquest. They merely saw an opportunity of advancing their trade by the right of might.

Throughout the century the system adopted by the Company was to hire certain territories from the native rulers. This precedent has endured until the present day, and is represented by the ports in China, which are hired by various European nations. The influence of the Company was further strengthened by their interventions in native disputes. Thus gradually that which had been a rent became an allowance. The native ruler surrendered all the political and administrative rights of his territories in return for an annual sum, upon which he was able to support the dignity of his now meaningless

title. In some cases they openly supported the cause of one claimant, or of one party, in return for a promise of a large reward in the event of a successful issue. Thus they made £1,238,575 by the revolutions in Bengal in favour of Mir Jafar. In others they played the *rôle* of arbitrator. In the Carnatic they received sovereign rights and a large sum in rupees for playing this part.

By these means a factory in the eighteenth century came to imply much more than a settlement of Europeans. It included a native community, which looked upon the agents at the factory as its rulers and governors. In the buildings, where the English were generally housed, there was a highly developed system of organisation. The younger members were subject to a strict discipline. Fines were inflicted for various trifling offences, such as returning home late at night, or swearing. Every settlement had a chaplain, and, by a Charter of 1708, it was decided that he should have precedence of the fifth member of the Council. The writers, who were the junior members of the staff, were always considered by the Company in the light of apprentices. They were admitted at the age of sixteen, and were employed to copy letters, proceedings, and the minutes of consultations. In this way they acquired a general knowledge of the Company's affairs. Their salaries were admittedly insufficient for their needs, and consequently there

were frequent complaints from the junior servants that life was impossible under the existing schedule of salaries. The evil was aggravated towards the end of the century, because the number of Europeans in India materially increased and the standard of living was raised. In 1768 several writers at Bombay sent a letter to the Company, stating that they received but £65 per annum, and that it was impossible for them to live without running into debt. "I never drank wine at my own table," says one of them, "and often went supperless to bed, because I could not afford either supper or candle[1]." The grievance of these petitioners was based upon the fact that an ensign's pay rose as high as £260 per annum, while the pay of the civil servant only increased by steps as he reached a higher grade. The number of writers in residence exceeded the demand, and many of them were unprovided with work and absolutely without hope of promotion. They were allowed 40 rupees per month for house rent, in the event of their not securing accommodation in the Company's buildings. This was ridiculous, for no house could be procured for the money. In Bombay the position was rendered far worse because private trade was impossible. Trade was in general a much more probable mode of sinking a fortune, than of acquiring one, because the European servant was

[1] Forbes' *Oriental Memoirs*, Vol. 1, Chap. ii.

restricted in his residence, and was liable at any moment to be called away from his private concerns. From 1755 to 1767 it took about twelve years' service for a writer to rise to the Council. But in 1768 it was thirty years before he attained to this rank. However, if the servants of the Company were prohibited from making large fortunes, the respect in which the Company was held in that part of India benefited largely. "The character of the English in India is an honour to their country," says Forbes, but his experience was limited to the West!

There is another side to the picture. Those men who were fortunate enough to succeed to the higher offices of the service lived in the luxury of barbarian potentates. Considerable display was of course necessary in order to impress the native chiefs, who would have considered the absence of pomp as a sign of meanness and a direct affront to their personal dignity. But in addition to this Oriental splendour these men were surrounded with the luxuries dear to Europeans. There is extant the following description of the settlement at Kasimbazár. "The English factory was delightfully situated, and the house was built in the most elegant manner. The gardens with which it was surrounded were very fine and covered a large extent of ground, reaching on one side no less than two miles. Besides some very good horses

they had several packs of greyhounds in order to enjoy the diversions of hunting, so that nothing was wanting to make life as agreeable as possible[1]."

When private trade was abolished, the Company realised the necessity of increasing the salaries of their higher officials. In Bengal, where the question was most serious, they granted them a percentage upon the revenue returns. Moreover, for a long time, it was possible for a member of the Council at one of the Presidencies to hold other offices contemporaneously. The result of this was, that the men, who were drawing large salaries as Councillors, also took the most lucrative posts up-country, and were frequently senior merchants at one or other of the Company's factories. The scale of pay also appears to have been higher in Bengal, for even the members of the provincial councils of revenue, who were merely ranked as senior and junior merchants, drew over 700 rupees a month[2]. It was in this way that huge fortunes were made by individuals, although many of the Company's servants, who were not fortunate enough to be located at Bengal or to secure support at home, spent lives of misery and poverty. In 1767 Lord Clive's income was calculated to be at least £96,000

[1] *Memoirs of a Gentleman who resided several years in the East Indies*, 1774 (Brit. Mus. 583. b. 14).

[2] About £1,000 per annum.

per annum[1], which forms a great contrast to the pitiful letter from Bengal, quoted above.

In its dealings with the natives the two great obstacles which met the Company at every turn were the extreme poverty of the people and their very strict caste rules. The food, clothing and habits of the native population were prescribed by their religious beliefs. Hence it was extremely difficult, if not impossible, to push the sale of English goods. The creation of new desires and new conventional necessities has been the great cause of the increase of industrial prosperity and efficiency throughout the world. For example, the East India Company succeeded, within half a century, in making tea an article of universal consumption in England. But in India the process was almost impossible. The Company was repeatedly pressed by manufacturers at home to export larger quantities of English cloth and other commodities, and was compelled in self-defence to yield to this pressure, although the Directors knew that it was almost impossible to create a market for the English goods in India, if the use of the articles in question chanced to be contrary to the customs and religious tenets of the natives. The climate, moreover, rendered woollen clothes unsaleable.

Again, the extreme poverty of the natives rendered the collection of goods for shipment to

[1] Debates in Asiatic Assembly, London, 1767.

England very difficult and complicated. There were no large local merchants or manufacturers. In its industrial development India had not yet abandoned the Domestic System. The weavers were so poor, that the Company was obliged to advance money to buy materials, and to provide sustenance during the period of manufacture. It sent agents about the country to collect goods in such proportions as they were offered, and to receive small quantities at specified places, until sufficient had been collected from various sources to form a cargo. The fabrics were collected into local warehouses, called "Kottahs," and each piece was marked with the weaver's name. Hence they were transferred to large warehouses, which, with the offices and private quarters of the agents, formed a "Factory."

Owing to the necessity for partial payment in advance, an efficient system of supervision was necessary to prevent the native from selling the completed article to some person, other than he who had advanced money for the purchase of raw material,—a proceeding which was by no means uncommon when the rivalry between the English and French Companies was at its height. At the head of each factory there was always an Englishman. He employed a native secretary, who was called a "Banyan." The "Banyan" hired overseers or agents, who were called "Gomastahs"; one for

each village or station, which supplied the factory. The "Gomastah" was provided with "Peons" who were armed servants, and "Hircarars," or messengers. The latter were employed to summon the "Dallahs," "Pycars," and weavers, when goods were due, or were required to complete a cargo. The former of these were agents, who dealt with the "Gomastahs," and the "Pycars," brokers who were intermediate between the "Dallahs" and the weavers themselves. Thus the Company's servant was five times removed from the actual weaver. The opportunities which this provided for corruption and oppression proved irresistible for most of the officials concerned[1].

As regards the industrial skill of the native craftsmen, it must be admitted that their methods were very primitive. Forbes gives a delightful sketch of them in their rustic surroundings[2]. "The weavers' houses," he writes, "are mostly under the shade of tamarind and mango trees, under which, at sunrise, they fix their looms, and weave a variety of very fine baftas and muslins." In summer, they worked over bowls of water, in order that the vapour might keep the thread soft. Yet it was not until the end of the eighteenth century that English manufacturers were able to make fabric with both warp and weft of cotton, as was the case with Indian muslins. The cotton fabric made for

[1] See Mill, Vol. III, p. 11.
[2] *Oriental Memoirs*, Vol. II.

the European market was of different lengths and breadths from that employed by the natives in their own dress; quite early in its history the Company sent out patterns for the natives to copy, in order that their goods might be saleable in England.

In the matter of weaving and spinning silk, the Indians were not so advanced as the Italians. In 1775 Warren Hastings imported from Lombardy "des ouvriers pour organiser en Asia des filatures perfectionnées[1]." An attempt was also made to "throw" organzine in Bengal, in spite of serious protest at home.

Besides the manufacture of cotton and silk goods, the natives did a large trade with the Company in indigo in the latter part of the century. From 1700 to 1779 the Company did not push the trade, because it did not wish to compete with the colonists of the West Indies and North America. But after 1779 it again took up the cultivation of the indigo plant, and continued to foster the trade in spite of considerable financial loss, in order to benefit British commerce and Indian prosperity. When the trade was fairly established the Company resigned it to its employees as a channel for the remittance of their private fortunes to England.

In the early part of the century the dealings of the Company with the natives were so straightforward and honourable, that its credit was greater

[1] *Les Grandes Compagnies de Commerce*, Bonnassieux.

than that of any other nation. But by 1765, certainly as far as Bengal was concerned, the reputation of the English was so bad that no sooner did a European come into one of the native villages, "than all the shops were immediately locked up, and all the people for their own safety ran away[1]."

From the beginning of the eighteenth century it was in Bengal that the Company made most progress. Its agents secured the right of free trade in the district for those goods which had been purchased for shipment to England. The native traders, on the other hand, were subject to a continual series of customs dues, exacted at various points over the face of the country. Between Calcutta and Patna duty was paid no less than six times at various "chokees" or douanes. The agents of the Company were empowered to grant "dustucks," or permits, which should exempt the Company's goods from these internal duties. Soon, however, when anarchy weakened the native rulers and their deputies, the Company's servants perceived that it would be quite easy to issue "dustucks" to cover the conveyance of goods from one part of the district for sale at another. By this means it was possible for them to undersell the native merchant, and to secure the entire country trade

[1] *Memoirs of a Gentleman who resided several years in the East Indies*, 1774.

for their personal profit. This was a great encroachment upon the privileges granted by the Moghul Emperor in the early "farmans." For not only was it the case that the exemption was intended to apply solely to those goods which were destined for England, but it was specially stipulated that the trade in salt, betel-nut and tobacco, which were the chief articles of local commerce, should remain in the hands of the native merchants. Moreover the privileges of exemption were granted to the Company and were not therefore applicable to the local trade which was carried on by the Company's agents in their individual capacity. Consequently, so long as the native administration was sufficiently strong, any abuse of the system was checked at once by the Súbahdars, because it injured the native merchants, and also deprived the Nawab of a considerable portion of his revenue. The agents were therefore obliged to content themselves with the coasting trade, of which they soon secured a virtual monopoly. The Court in Leadenhall Street was even induced to overlook the employment of those of their ships which were waiting for cargoes.

Upon the dethronement of Siraj-ud-daulah and the elevation of Mir Jafar the Company's servants again entered the "country trade." Clive, during his administration, compelled them to pay the ordinary duties, thus placing them on the same

footing as the native merchants. But Mir Jafar's position was very precarious and his authority over the English was small. They soon grew bolder, and once again successfully employed "dustucks" to pass their goods. The native collectors dared not demand to scrutinise the "dustucks," for, on any interference, the agent sent out British sepoys, who carried the rash collector a prisoner to the nearest factory. Mir Jafar protested in vain. Every man with the Company's "dustuck" regarded himself as no less than the Company, and Verelst in his *View of Bengal* says that it was a frequent event for a native to purchase the use of the name of some young writer, and under this sanction to harass and oppress his fellow-countrymen[1].

Not content with usurping a freedom from taxation to which they had no shadow of a claim, the "gomastahs" of the Company's servants, or the natives who had purchased the sanction of a British name, soon presumed upon the weakness of the local authorities to oppress the natives in an illegal and scandalous manner. "From the factories of Calcutta, Patna, and Dacca," wrote the Nawab, "all the English Chiefs, with their gomastahs, officers and agents, in every district of the Government, act as collectors, zemindars, and taalookdars, and, setting up the Company's colours,

[1] Pages 8 and 48.

allow no power to my officers[1]." When they came to a small town they ordered the merchants to purchase their goods at such a price as they pleased to dictate, and, if they refused, they had them severely flogged. In a letter to the Governor, dated May 1762, the Nawab, Mir Jafar, declared that the usual procedure was to compel the natives to sell goods at a fourth part of their value. The evil soon spread beyond the dependents of the Company, and was practised all over the country by people falsely assuming the costumes of the Company's sepoys or "gomastahs." "I have been surprised," says Hastings, "to meet with several English flags flying in places where I have passed, and on the river I do not believe that I passed a boat without one[2]."

The evil was further increased, because the Company's agents at certain places persisted in receiving any interference on the part of the native officials as an offence against the dignity of the Company, and, without respect to the rights of the case, proceeded to punish the offending native.

The position now took an important change. Mir Jafar, who was weak and cowardly, was practically compelled to abdicate in favour of Mir Kasim. The latter was a crafty but truculent

[1] Letter from Mir Jafar, March 6, 1762, quoted in Vansittart's *Narrative*, Vol. II.

[2] Letter to Governor, April 25, 1762.

patriot. Immediately the war against the Moghul Emperor, in which he was allied with the English, was concluded satisfactorily, he turned his attention to securing the independence of his country. He reformed the revenue system, created an army trained by European adventurers, and removed all subordinate governors whom he suspected of friendship to the English or of hostility to himself. To avoid the surveillance of the English he removed his capital to Mungir, which was 375 miles from Calcutta, and fortified the town. Finally, having, by strict economy, succeeded in paying off the debt to the English, he determined to force on a conflict[1]. Ready to hand was the old dispute about the private trade, and he was not slow to make use of it. The Council at Calcutta, with the exception of Vansittart and Hastings, were so obsessed with the idea of enriching themselves that they did not perceive how critical the situation had become, and were opposed to all concessions. The President however visited Mir Kasim in person at Mungir in the hope of compromising the matter, and, after considerable dispute, it was agreed that "dustucks," signed by the Company's agent, should pass the inland trade under a fixed duty of 9 %, but otherwise under the same conditions as the natives. The Nawab wished to

[1] For the policy of Mir Kasim see Malleson's *Life of Clive*, pp. 345–349.

deprive the English of the trade entirely, but ultimately he agreed to Vansittart's proposals by way of an experiment, declaring that, if the abuses continued, he would remove all duties from English and natives alike.

On the whole Vansittart had reason to be satisfied with this compromise, for the aggregate of the local duties paid by the natives amounted to about 25 %. When, however, he returned to Calcutta to obtain the sanction of the Council for the arrangement, they wished to repudiate it, and considerable delay followed. Meantime Mir Kasim proceeded to inaugurate the new scheme, so that the native officials received orders to enforce the duties, before the English agents were ordered by their Council to accede to the native demands.

The dispute reached a crisis at Patna. There had been trouble between Major Coote and the Nawab, which Vansittart had attempted in vain to smooth over. Further, when Mr Ellis was appointed Chief there, a quarrel arose over the Barbana Gate. Ellis claimed that this gate should be open to the agents of the Company, as it was a short cut between the English factory and the town. The Nawab wished to close it for purposes of fortification. Ellis declared that the closing of the gate and the increased fortifications were an intentional affront to the English, and in this he was supported by the majority of the Council at Calcutta.

Vansittart was therefore compelled to send a letter to the Nawab, which was quite contrary to his own judgment, and which was calculated to destroy the confidence which Mir Kasim had placed in his sincerity.

In spite of the opposition of the President, the Council decided to throw down the gauntlet. They declared that the privileges of private trade were unlimited, and that the duties hitherto paid on salt and some other articles were but a compliment, and could be continued, or not, at the Company's pleasure. They said that their rights were based upon the original "farmans" granted from Delhi, but that the English had been unable to enforce these rights before the deposition of Mir Jafar. Vansittart and Hastings made every effort to prevent this declaration but, as the former so pithily remarks, "neither my opinion nor the Company's orders could avail against minds which were heated with the notion that their honour was at stake in supporting the party they were engaged in[1]."

In accordance with his threat the Nawab at once removed all duties upon trade for natives and English alike. The Council thereupon decided, that to exempt the natives from duties was a breach of the Company's privileges, and that he should be required to annul the proclamation. They further decided that, as Súbahdar of Bengal, the Nawab had

[1] Letter to Company (Vansittart's *Narrative*, Vol. II).

no authority to remove the duties. Such a proposal, they declared, required the sanction of the Moghul. Once again Vansittart and Hastings stood alone in the opinion that the Nawab's action was both legal and justifiable.

Meantime at Patna things went from bad to worse. Kasim wrote: "the flame of enmity every day rises higher; whatever they please they do; whatever comes into their mouths they speak, and they place guards upon my houses and forts." Hostilities were now inevitable, and the Board discussed the restoration of Mir Jafar. The invariable practice was to favour the usurper in a revolution on condition that, if successful, he granted certain privileges to the Company. Vansittart, when war was decided upon, prosecuted it with vigour. He has described his own position admirably in his published defence. "Therefore in all our disputes," he says, "I had placed myself between the Nabob, and the rage of his opponents, till the flame grew too violent to be extinguished and threatened our own possession."

One revolution was thus scarcely completed, before another was proposed. Mir Jafar was restored in 1763 upon the most iniquitous terms. He was compelled to ratify the cession of Bardwan, Midnapur, and Chittagong; to grant free trade, except for a nominal duty upon salt[1]; to make over

[1] 2½ °/₀ on the market price at Hughli or Rowana.

to the Company the exclusive right to purchase saltpetre at Purniah and to make lime at Silhet; and, finally, to pay huge compensation for the losses of the war. He agreed to revoke the universal free trade granted by his predecessor, and undertook to make no treaty with the Dutch, and to refuse to the French permission to build any fortifications within his dominions. By the revenues of the ceded provinces the Company became possessed of one half of the Nawab's revenues.

Leadenhall Street, as yet uninfluenced by imperial ambitions, was extremely indignant that the rapacious conduct of its servants had involved the Company in a native war. Accordingly the Board unhesitatingly condemned the proceedings, and induced Lord Clive to return to India as Governor of Bengal. Before the new Governor sailed for India he secured the ascendancy of an imperialist party in the Court, and anticipated the support of the Directorate in whatever steps he saw fit to propose. Upon his arrival he composed a most important despatch to the Company, in which he gave a detailed description of the abuses which were rife in India, together with proposals for alleviating the unsatisfactory condition of affairs. This despatch is of supreme interest, and gives a very vivid picture of the corruption prevalent among the Company's servants, and of the evils consequent thereto. "Every inferior seemed to have grasped

at wealth, that he might be enabled to assume that spirit of profusion which was now the only distinction between him and his superior[1]." Fortunes being acquired so speedily, the Company's servants were able to retire after a very few years' service, so that there were rarely any men of experience left in the Presidency to succeed to those posts which required special qualifications. Clive therefore suggested that it would be well to depart from the strict succession of offices, and even to import experienced men from the other Presidencies, and specially recommended for this purpose the agents at Madras, whom he declared were beyond reproach. In another letter he says: "Luxury, extravagance and corruption together with an independent way of thinking have arisen to such a height in this settlement that the most vigorous measures are absolutely necessary[2]."

In framing a scheme to deal with the situation, the Governor set before himself the following ideals. He desired, in the first place, to secure the allegiance and interest of the agents for the Company, and for the Company alone. It was therefore necessary to grant them a *quid pro quo* for the lucrative private trade. He also wished to ensure a succession of able men in the Presidency, and therefore

[1] Letter from Clive: Calcutta, Sep. 30, 1765. 3rd Report of H. of C. App. 73.

[2] Letter to Court, Nov. 28, 1765. 3rd Report of H. of C.

it was necessary to provide a scheme, whereby a man, though prevented from securing great wealth in too short a time, after a reasonable term of service was guaranteed an income which should compensate him for his life of exile. "A competency ought to be allowed to all your servants from the time of their arrival in India; and advantages should gradually increase to each in proportion to his station; but I would have few of them entertain hopes of returning to his native country, till they shall have attained the rank of Councillor[1]." It is a sound maxim to pay good wages to a responsible agent. Never muzzle the ox that treadeth out the corn. In spite of this the salaries paid by the Company were ridiculously inadequate: that of a Councillor was barely £300 per annum, and it was well known that he could not live in that country for less than £3,000. It was therefore a false step on the part of the Directors unconditionally to forbid all participation in the internal trade. Clive's advice was good and they should have been guided by it.

The Governor's first action was to compel all the servants of the Company to sign covenants[2] that they would receive no present from a native prince without the consent of their employers. Thereby he obviated any danger of an attempt to serve two masters.

[1] Letter from Clive to Court, Sep. 30, 1765.

[2] For text see 1st Report of H. of C. Committee (Appendix) 1772.

With regard to the private trade he took upon himself the responsibility of ignoring the repeated orders of the Directors that it should cease entirely. Instead, he devised a scheme whereby the trade in salt, betel-nut, and tobacco should be exploited as a monopoly for the benefit of the superior servants of the Company. On August 10th, 1765, a Select Committee, composed of the Governor, Sumner, and Verelst, passed this scheme into law. A duty upon the trade was to be levied for the benefit of the Company; Clive declared in his famous despatch that this was to absorb half the profits, which, it was estimated, would amount to £200,000 per annum. After the payment of this duty the residue was to be divided into shares, which were to be allotted in various proportions to the senior servants according to their rank. The goods were to be purchased by contract, and to be sold to the natives at established prices. In this way it was hoped that the oppression of the natives would be prevented. The Committee considered that they had now made fair provision for the senior servants, and felt justified in forbidding them to accept posts at distant stations, a practice which was as common as it was inexpedient. The Directors however refused to be guided by the advice of the local Committee, and on February 19th, 1766, they wrote, declaring that they considered the continuance of the private trade "as an express breach

and violation of their orders, and as a determined resolution to sacrifice the interests of the Company and the peace of the country to lucrative and selfish views...and we do absolutely forbid this trade of salt, betel-nut, and tobacco." The Council continued to put their scheme into action, ignoring the orders from home on the grounds that the Directors could have no knowledge of the conditions in India. Had this argument been accepted, it would have rendered the Company's servants independent, and have constituted them the *de facto* rulers of India. As a matter of fact the tendency of the next few years was, while strengthening the position of the Court against the agents, to transfer the ultimate authority to the Ministry at home. The independence exhibited by Clive and his successor, Warren Hastings, suggests at once Strafford and his policy of "Thorough" in Ireland. There is no doubt that the policy of these great Proconsuls was beneficial, but it is also obvious that the contempt, which they evinced for the orders of their superiors, was criminal. Success covers a multitude of sins, and it cannot be denied that many great men have obtained greatness by disregarding orders. But, as human institutions stand, it is expedient to punish disobedience in great men, even when it is successful, in order to discourage a similar independence of spirit in the mediocre servant, and thereby to minimise the

chance of repeated disaster, even at the risk of losing an occasional and signal success.

Before sailing for England at the beginning of 1767 Clive proposed that no Governor or President should engage in trade. "A Governor," he said, "ought to be free from every corruption in which his judgment can possibly be biassed by his interest." This was sound policy, but it is difficult to see why it should not have been extended to apply to the members of the Select Committee and of the Council. He had perceived the root of all the corruption and mis-government in India, but he was not wise enough, or else not strong enough, to push the remedy to its logical conclusion. What was required was a scale of adequate salaries, which should remove from the civil servant the desire of incurring the risks of trade. The Indian civilian of to-day frequently enters the service because of its freedom from mercenary considerations and from the spirit of commercialism.

Shortly after Clive's return the Directors realised the truth of his contention. They forbade all private trade, but increased the salaries of the servants, and granted them a percentage upon the newly acquired revenues of Bengal. In this they were well advised, and their solution of the problem was in some ways better than that which Clive had devised and had attempted to force upon his masters. For the future there was no excuse

for corruption amongst the Company's servants. Warren Hastings attempted to carry on the tradition of Strafford, but Lord Cornwallis, some years later, succeeded in completing Clive's work of purging the Augean stables. The improved moral tone which he gave to the Civil Service was the most important result of his connection with India.

CHAPTER IV

THE COMPANY AFTER 1765

The prospects of the Company now appeared excellent. The French had been completely expelled from Southern India, while the victories of Plassey and Buxar had made the English masters of the North-East Provinces. By accepting the Diwani Clive had secured the substance, though not the name, of the chief territorial authority[1]. The Nawab himself was pleased to be relieved of his arduous duties, and the Company had nothing to fear from him. "Praise be to Allah," he said, "I shall now be able to have as many dancing girls as I please." Moreover, the surrender of the revenues removed all danger of revolution. In the past, revolutions had been engineered by speculators, who anticipated considerable presents from the pretender in the event of his success. "At every turn of the wheel, at every change in the

[1] It was theoretically only a grant from the Moghul Emperor. The actual collection of the revenues and the criminal jurisdiction which accompanied the office were continued in the hands of the native agents, the former till 1772, and the latter till 1790.

system, or the personality of the Government, vast sums were drawn from the native treasury, and most steps of promotion were purchased by gifts to the English[1]." Omitting the grant to Clive after Plassey, six millions had been distributed by native princes since 1757. All this was now at an end; the purse strings were in the hands of the Company.

The only thing which could in any way check this prosperity was the continuance of the unsatisfactory relations between the Court at India House and its agents. Clive's attempts to solve the problem have been described in the last chapter. The Directors continually refused to sanction the Private Trade Society, and despatched a letter to Calcutta, in which they declared it a violation of repeated orders, and commanded its immediate dissolution. There was now no course open to the Council but to obey.

The action of Leadenhall Street was due to the growth of a tendency among the Proprietors to accept the guidance of politicians who had no knowledge of India or of commerce. Ministers and Peers exercised a weight in the administration of the Company out of all proportion to the amount of stock held by them. It was largely believed in England that gold, silver and precious stones could

[1] Lecky, *History of the Eighteenth Century*, Vol. III, Ch. xiii.

be had almost for the asking in India. The representatives of the popular party in Parliament declared that the rich spoils of the Company in the East would be the means of relieving the English people of some of their financial burdens. Even the Proprietors were influenced by this exaggerated estimate of the country's prosperity, and insisted upon a dividend of 12½ %, for the payment of which a loan had to be negotiated at exorbitant interest. The Government itself entered a claim of £400,000 per annum, and various shady speculations on the Stock Exchange, which inflated the Company's stock to £278, gave verisimilitude to this unfounded anticipation of great prosperity.

India was in reality a poor country. Bengal appeared likely to be prosperous, but a steady drain of its profits went to Madras to pay for repeated wars in the South. It is also a generally accepted maxim that to make a profit out of the revenues of a country is a task of great difficulty. The government of Bengal was not likely to be economically conducted, owing to the distance of India from London. The abolition of private trade rendered embezzlement still more probable. As Clive said in the House of Commons: "Before the Company became possessed of the Diwani, their agents had other means of making their fortunes. Presents were open to them. They are now at an end. It was expedient for them to find some other channel

—the channel of civil and military charges. Every man now, who is permitted to make a bill, makes a fortune[1]."

By dissolving the Private Trade Society, the Company restored the country trade to their servants unrestrictedly. Thereby they lost all share in it. It was carried on duty free, and the Company lost both the duties, which it should have received as Diwaṇi, and also the percentage on the profits, which Clive had allotted to it. Further, the dual system of government led to anarchy and oppression. The crimes of the English and their agents were not cognisable in local courts, and were therefore in a great measure secure from punishment, while the unhappy natives lay prostrate at their feet. It is generally acknowledged that a people is productive only in proportion to the share of its produce which it is permitted to enjoy. It is therefore not surprising to find the abuses of the Indian administration were reflected in the Company's receipts.

In 1765 the territorial revenues of the Company formed a very considerable part of the profit account. Hence it is extremely difficult to separate the commercial returns from the general accounts of the Company. It appears that during the eighteenth century the *volume* of trade increased. But the *profits decreased* in accordance with the law of

[1] Almon's *Debates*, 1772.

supply and demand. Moreover, an ever-increasing part of the trade of England with India was transacted on account of private individuals, and not on account of the Company, so that a large portion of the wealth, which should have passed into the general exchequer, was diverted into the pockets of the Company's servants.

With regard to the legislation of this period it may be said that, for the most part, it was framed to control a sovereign power, rather than a purely commercial corporation. As Macaulay said many years later: "The existence of such a body as this gigantic corporation—the POLITICAL monster of two natures—subject in one hemisphere, sovereign in another—had never been contemplated by the legislators or judges of former ages."

The right of the Company to a monopoly of the Indian trade had formed the great subject of controversy throughout the first half of the century. After 1765 the crucial point was the right of the Company to its territorial revenues, and the question was raised in the following year, when the intervention of the Ministry was demanded on all sides. A pamphlet[1] war again raged over the question, and continued for several years. Chatham and Shelburne maintained that the revenues of all lands acquired by subjects belonged to the State, and that therefore the revenues of Bengal should

[1] Mill gives a list of these pamphlets.

be paid to the Crown. Townsend, however, urged that it was inexpedient to bring up the question in Parliament, while the Rockingham Whigs supported the rights of the Company.

However, in 1767, five Acts of Parliament were passed, with a view to postponing the decision of the controversy by the provision of a temporary settlement. The Company was to pay £400,000 per annum for two years, during which time its territorial revenues were guaranteed. In this way it was hoped to satisfy those who considered that the country should secure for itself some share, at least, in the Company's new prosperity. It was further provided that no dividend in excess of 10% was to be paid without the consent of Parliament, which thus declared itself possessed of the right to control the Company in the distribution of its own profits.

During the next two years the financial condition of the Company became serious. In 1768 the Select Committee in Bengal wrote to the Directors in the following terms: "You will perceive, by the state of your treasury, a total inability to discharge many sums, for which you are indebted to individuals for deposits in your cash, as well as to issue any part of the considerable advances required for the service of every political department. And you will no longer deem us reprehensible, if a decrease in the amount of your future

investment, and a debasement of the quality, should prove the consequence." In accordance with this letter the Committee proceeded to reduce the value of the goods shipped to England, and also to draw bills for large amounts upon London. The Directors replied by forbidding the excessive use of bills, and advocated a system of local loans. The agents paid little attention to these orders, and the Company's financial difficulties increased. In spite of this it presented a petition to Parliament that the limitation of its dividend should cease. This was done simply for the sake of the principle, not because it wished to declare a higher dividend. The petition however failed, but a new agreement with the Ministry was completed in 1769[1], whereby the question of the territorial rights was again postponed. The Company was to continue the payment of £400,000 in return for the right to its territorial revenues. It was to export a specified quantity of English goods, and was permitted to raise its dividend to 12½ % by annual augmentations of 1 %, or under. If the dividend fell below 10 %, the payment to the Government was to be proportionately reduced. To ensure the faithful observance of these regulations, a statement of its exports and of its liabilities was to be presented annually to the Lords of the Treasury. This Act was based upon the supposition that the Company

[1] 9 Geo. III, c. 24.

was making large profits, whereas in reality it was on the verge of bankruptcy. It is especially interesting in that it shows the attitude of the Government to the Company at this time. A long step towards complete ministerial control had been taken, but we must be careful not to attach too great importance to the fact. In the eighteenth century Parliament transacted a vast quantity of private business, which would now be conducted by the Crown through the agency of a Minister. To-day the concerns of such a corporation as the East India Company would be supervised, and quietly controlled, by the President of the Board of Trade. Neither party interest nor popular jealousy would be able to secure a hearing.

The question of the territorial rights was undoubtedly an important point in Constitutional Law. It was keenly argued in a number of pamphlets, and was finally brought up before Parliament, when the Company was heard by counsel at the bar. The case against the Company was based partly upon law, and partly upon expediency. It is well expressed by the writer of the *National Mirror*[1]: "If it shall be evinced that the royal prerogative hath been arbitrarily extended to the injury of the state; that the Commons may have exceeded that authority, with which they are entrusted of the people; that the territorial revenues

[1] Published in the *Gazette*, 1768–9.

of our conquests in Asia are the indisputable property of the nation, and not of individuals; that the Asiatic commerce is susceptible of vast improvements; that the exclusion of subjects in general by a pernicious monopoly is both unwarrantable and oppressive; that the powers of raising armies, and of exercising military law, of declaring war, and concluding peace, are such grants as are not only subversive of the rights and liberties of Englishmen, but are repugnant also to the law of nations," the Ministry must intervene. The writer accepts Clive's estimate of 2½ millions as the profit of the Diwani, and argues that it is not *expedient* to allow so large a sum to pass into the hands of a Company. "If two millions a year," he writes, "run into the hands of twenty-four Directors, will it not prove a power too strong for patriotism and virtue in the majority of those who superintend the Government of the state?" Further, if it be legitimate to exact £400,000 per annum, then it is legitimate to exact as much as the nation needs. "Should this auspicious opportunity be neglected, a national bankruptcy must inevitably ensue another declaration of war."

The country, as a whole, was frightened at the idea of so large a sum of money in the hands of an oligarchy of twenty-four. In the days when party politics were solely a question of gold, when bribery and corruption, family influence, and the

wholesale creation of "placemen," were the chief factors in Parliamentary life, this attitude is not surprising. The error lay in the estimate of the Company's prosperity. Very little of the profit of the Diwani was ever available for political purposes in England.

The constitutional history of the eighteenth century is bound up with the question of the personal government of the Sovereign. George I, being thoroughly German in birth and in sympathies, had permitted his influence in English politics to lapse. George II, though more vigilant, was politically a coward. The constitutional position of Jacobitism was such as to render the Crown wholly dependent upon the Whig party and to cause the Sovereign to retire behind the Ministry. With the accession of George III the position was completely altered, and this reign was marked by an attempt on the part of the Sovereign to recover the position to which his two predecessors had been indifferent. The King was repeatedly interfering in politics, and initiating schemes without any consideration of their expediency, provided the credit for them was assured to him personally. Under these circumstances it is not surprising that he should have welcomed the suggestion that the Royal prerogative be extended to India, and that the conquests of the Company were his by right. More than once he sent representatives to the Court of the Nawab of

the Carnatic, alleging his friendship for his "ally[1]." The influence of the King was therefore against the Company in the controversy, and by his arbitrary and ill-advised conduct he did great harm to its reputation, and indirectly injured his "ally."

The representations of the Company were more varied[2]. It was urged that the Dutch wisely considered the success of their Company as a national concern. No people were more tenacious of liberty at home; yet they invested their Company with absolute sovereignty in India. Such was the success of their policy, that the dividends of their Company averaged 24% over a period of 160 years. Its property at home and abroad was held as sacred as any private property, and dividends up to 75% were faithfully distributed among the Proprietors. It had its Charters continually renewed without the exaction of huge fines. The increase of British maritime power was to be attributed to the Company on the analogy of Portugal, who, by finding a passage round the Cape, had engrossed the Indian trade, and had become in a short time the most formidable naval power in Europe. The old argument about the support given to the State by the duties on Indian goods was also urged on the

[1] The Nawab was alluded to in these terms in the Treaty of Paris.

[2] See *Observations on the Present State of the East India Company*, London, 1771 [Brit. Mus. E. 2096 (41)], etc.

Company's behalf. Finally, the complete failure of the French Company, which was the great example of a commercial enterprise under State control, was emphasised as a warning to those who advocated ministerial interference.

From the legal standpoint the Company declared that the rights in question were purchased from the State on the footing of equal contract for a price paid. No reservation of the territorial revenues had been made in the early Charters. The words of Anne's Charter were quoted:— "That the Merchants of the East Indies and their successors may be the better encouraged to proceed in their trade, and to make *lasting* settlements for the support and maintenance thereof," the Act "rendered their rights *perpetual*." The counsel for the Company quoted all the territorial grants which the Company had ever received, including that of Bombay from King Charles II. No claim, he declared, had ever been made on account of any of these, and yet the right to the profits of the Diwani of Bengal, which happened to be large, was claimed by the Ministry without any precedent whatever. As a matter of fact, the Company was not in possession of this territory, but was only acting as the chief revenue officer of the Moghul Emperor, who had farmed out his revenues in accordance with custom. In conclusion he urged that political necessity had never been used to justify the

confiscation of private property: full compensation was always paid. Yet now the Ministry proposed, without precedent, to deprive the Company of a large annual revenue without any compensation whatever.

It is difficult to state that the contentions of either party were wrong. Undoubtedly the Company had precedent upon its side. In 1762, when the French demanded the restoration of lands taken from the French East India Company, the Ministry replied in the following words: "Every dispute thereto must be settled by the Company, the Crown of England having no right to interfere, in what is allowed to be the legal and exclusive property of a body corporate, belonging to the English nation[1]." On the other hand, there is Chatham's constantly stated opinion, that, by Constitutional Law, no subject could obtain territories except for his Sovereign. From the point of view of expediency, it was unquestionably necessary to secure some ministerial control. A commercial corporation was by no means the ideal sovereign for a distant empire. Its machinery was inadequate, its personnel was corrupt. The claim that the Moghul was really the sovereign of Bengal was but a subterfuge. In fact, the complete failure of the Company to cope with its responsibilities in the next few years is the best proof that its opponents

[1] Quoted by Macpherson.

were in the right. We saw the Interlopers of the last century pleading that expediency was no answer to a claim based upon legal right. In 1772 the position was reversed: the Company pleaded legal right in answer to its opponents, who took their stand upon considerations of expediency.

Before long rumours of the disgraceful condition of the administration and of the precarious state of the Company's finances were spread throughout the country. The Company, in defending its position, had been wont to lay great stress upon the prosperity of the trade with India. It was therefore obliged to keep up appearances by continuing the dividend of 12%, which it had paid in 1769. Its profits did not warrant the distribution of such a sum. The famine in Bengal, the war with Haidar Ali, the corruption of the administration, and the evils consequent upon the drain of specie, combined to create a crisis. In July 1771 there appeared a deficit in London of £1,293,000. On July 15th the Directors were obliged to apply to the Bank of England for a loan of £400,000. After a fortnight they applied for £300,000 more, but the Bank would only advance £200,000. By August they were obliged to seek help from Lord North, and to beg for a loan of £1,000,000. They declared that the underlying cause of their temporary embarrassment was the inefficiency of the means at their disposal for punishing disobedience on the

part of their servants. Although the situation was only temporary, Lord North perceived that the opportunity had now come for obtaining that control over Indian affairs for which a considerable portion of the nation had long been clamouring. Accordingly, in 1773, after considerable opposition in Parliament, his famous Regulating Act[1] was passed into law. This Act was based upon the recommendations of a Select Committee of Secrecy, and provided that a loan of £1,400,000 at 4% should be granted to the Company. The tribute of £400,000 per annum was remitted, pending the repayment of this loan, but meantime the dividend was limited to 6%. The amount of bills drawn upon London was limited; and India was to be governed by a Governor-General and Council located at Fort William. The Directors were to receive full reports from this body, and all communications, which dealt with revenue or with civil and military government, were to be submitted to a Secretary of State.

Most authorities agree in criticising this bill. Burke, who afterwards opposed the Company so bitterly, exhibited his strong Conservatism by denouncing it as "a violation of the Charters of the Company, and a spoliation of private individuals." Lecky declares that it was very severe treatment, since the difficulties of the Company were largely

[1] 13 Geo. III, cc. 63 and 64.

due to temporary causes, and that the chief factor in its embarrassment was the extortionate tribute which the Government had exacted. Mill is exceedingly hostile. The ghost of oligarchy seems to have haunted him throughout his life. He declares that the bill fulfilled "the tendency of that policy, which reduced things as much as possible to oligarchy." It did not remove the evils for which it pretended to find a remedy, and it created new sources of trouble. In addition, it increased administrative expenses, and thereby caused further plunder and oppression of the people. Finally Bonnassieux says: "C'était une compensation bien légère aux prérogatives enlevées à la Compagnie."

However it is due to Lord North to say, that by the Acts of 1773 the Charter of the East India Company was completely subverted. The government of India passed mainly into the hands of ministers of the Crown. The present condition of our Indian Empire would never have been possible, had not the trade and the government been separated. It is the Regulating Act which forms the first step in the complete separation, which was consummated in the middle of the next century. It was a new experiment in legislation, and as such inevitably contained much that was unwise, much that was unjust, but the principles which it vindicated have been the foundation of an Empire, of which England is justly proud.

In accordance with Lord North's Act, Warren Hastings, who had been appointed Governor of Fort William by the Directors in the previous year, was elected to the newly created post of "Governor-General of Fort William," and took his seat in 1774. The theory of the Act was that the Governor-General in Council should be supreme in Bengal, and should have a limited authority over the other Presidencies. But all questions were to be decided by a majority on the Council, so that promptness and unity of action were sacrificed to secure an elaborate system of constitutional checks. In spite of these difficulties however Warren Hastings succeeded in restoring the solvency of the Company. His methods are clearly set out by himself in his memoirs, and although he claims to have done more than was really accomplished the situation improved rapidly, and the financial embarrassment, which had been largely due to temporary causes, vanished naturally. The Company was enabled to pay off its debt, and in 1777 it raised its dividend to 7 %.

There now appeared upon the scene Philip Francis, the supposed author of the *Letters of Junius*[1]. As a member of the Council at Fort William, he had a serious quarrel with Hastings which resulted in a duel, was wounded, and returned to England with the fixed intention of stirring up popular

[1] It has been suggested that Francis's Indian appointment was a bribe for the cessation of the *Letters*.

indignation against his late adversary. In doing this he not only discredited Hastings, but he also aroused a strong suspicion in the minds of the citizens of London that the Company's methods of dealing with the native potentates were still open to criticism. Under his influence the question of the territorial sovereignty was again brought up in Parliament, and was referred to two Parliamentary Committees, which sat concurrently. The one, under the presidency of Burke, was nominally to enquire into the administration of justice in Bengal. The other, which was a Secret Committee, was presided over by Dundas, and was to enquire into the causes of the war in the Carnatic.

By the terms of the last settlement, the Company's rights would terminate after three years' notice from March 1780. Its position was therefore critical, and Parliament and the Company were face to face for a final struggle. The Ministry asserted the right of the Crown to all territory acquired by British subjects, but the Company was encouraged by the success of the American Colonists to resist this claim. Unfortunately it had passed the zenith of its commercial prosperity. The Industrial Revolution had seriously affected its trade, and Manchester was driving Indian cottons from the market. Its opponents were thus able to declare, that to its other crimes it had added that of commercial failure. This the

Company firmly refused to admit. It replied that it paid a quarter of a million in dividends, and that its assets were three times the value of its liabilities. In 1784, when the question was before Parliament, the accountant of the Company, John Amies, presented an account at the bar of the House of Lords, in which it appeared that, if the Company were wound up and all its assets realised, there would be a balance of nearly four millions exclusive of dead stock in India[1].

However, in spite of its efforts to preserve the appearance of prosperity the Company failed to pay to the Government the £400,000 per annum which was due now that the loan of 1769 had been paid off. Once again, therefore, Parliament had its chance. Dundas, Fox, and Pitt in turn introduced Bills, which were intended to inaugurate a final and lasting settlement of the Company's affairs. It is beyond the scope of this essay to discuss the proposals in detail. Dundas' Bill was an Opposition Bill, and was soon dropped. Fox's Bill is important because it caused the fall of the Ministry. It was rightly rejected by the House of Lords as an attempt to secure for the Whigs, who were then in office, all the patronage of India. Its effect would have been to deprive the Company of all its power and of all its privileges, and the administrative machinery, which it provided, would have been quite inadequate.

[1] See *The Case of the East India Company at the Bar of the House of Lords* re *a Bill entitled...*, 1784, Brit. Mus. 583. g. 1.

The fall of the Whigs, and the return of Pitt to power in 1784, were largely due to the efforts of the Company. To show his gratitude, the new minister reduced the duty on tea from 50 % to 12½ %, and shortly afterwards introduced his famous India Bill[1]. The chief characteristics of this Bill were the introduction of a Board of Control, and the diminution of the power of the Proprietors. Pitt's intention was to increase the executive efficiency of the Company, and at the same time to bring it under proper control. To secure this end a Committee of Directors, not exceeding three in number, was authorised to deliberate in secret upon questions of importance and delicacy. A provision was made whereby the private fortunes of servants should be investigated upon their retirement, and a new tribunal for the punishment of refractory servants was instituted[2].

To secure ministerial control a Board of Commissioners, composed of six Privy Councillors, amongst whom a Secretary of State and the Chancellor of the Exchequer were always to be included, was established for the supervision of Indian affairs. This Board was to be elected by the King and to hold office during his pleasure. It was to have no patronage, but was to have access to all the papers of the Company, and drafts

[1] 24 Geo. III, Sess. 2, c. 5.

[2] Vide Sir C. Ilbert, *Government of India*, p. 68, note.

of all despatches to be sent to India were to be submitted to it for approval and, if necessary, revision. At the same time the Act arranged for a Committee of Secrecy, not exceeding three members, to be elected by the Directors from among their number, to conduct any business of a peculiarly delicate or secret character, after the approval of the Board of Commissioners had been obtained. Also the Court of Proprietors was deprived of the right to overrule any decision of the Directors which had received the approbation of this Board of Control.

Pitt's Bill was therefore a very fair solution of the difficulties of the situation. Mill declares that the result of the measure was to make the President of the Board of Control the Governor of India *de facto*, and thereby to call into being a new Secretary of State. In fact we learn from a letter written by Mr Beaufoy[1], one of its first Secretaries, that until 1794 the Board existed only in name, and that the whole work was carried out by the principal Commissioner alone. Mill deprecates this result on the grounds that, so long as the Board of Control refrained from interfering, things were left in the same situation as before, while, if it did intervene, India would be governed by

[1] Quoted by J. W. Kaye. See *The Administration of the East India Company*, pp. 128–133, for an account of the Board of Control.

a body which had less knowledge, talent, and motives for good, than the Court of Directors. His criticism is exceedingly vehement and somewhat exaggerated. The Act accomplished its purpose, for it removed the responsibility of governing an Empire from the shoulders of twenty-four men, elected in theory for their knowledge of commerce, and transferred it to a Government Department. From time immemorial the agents of governments have been accused of ignorance, stupidity and corruption. The Board of Control may have been characterised by all these faults, but it was no worse than other departments. The government of India had been brought into line with the other sections of British administration, and that this should have been salutary cannot be denied. In the words of Dundas: "No writer upon political economy has as yet supposed that an extensive Empire can be administered by a commercial association; and no writer of commercial economy has thought that trade ought to be shackled by an exclusive privilege[1]."

With regard to India itself, the Bill strengthened the hand of the Governor-General, and in 1786 a further Act[2] was passed, which allowed him to

[1] Speech of Dundas (House of Commons), April 23, 1793. Camb. Univ. Lib. Acton b. 25. 342.

[2] 26 Geo. III, c. 16.

act in opposition to the majority of his Council. Thereby individual responsibility, promptness of action, and unity of purpose were secured. On the whole, evidence seems to show that the policy was successful, and that the provinces under the immediate administration of the Company's civil servants were the most prosperous part of India. This however is a highly controversial question, which it is impossible to investigate here. The centralisation of authority in the hands of the Governor-General was without doubt an improvement upon the arrangement contained in the Act of 1773; it rendered obstruction, such as that from which Warren Hastings suffered, impossible in the future.

Two more Acts were passed in 1793 and 1797 which continued its exclusive privileges to the Company[1]. The former was the outcome of further agitation over the renewal of the Charter. The Ministry preferred the *status quo*, but imposed minute restrictions upon the employment of the surplus profits, which were estimated at a million. The Company was to increase its capital by a million, subscribed at 200, and thus redeem its bond debt. It was also stipulated that the Company should provide 3,000 tons of shipping for private traders.

The object with which this latter Act was

[1] 33 Geo. III, c. 52. 37 Geo. III, c. 31.

framed was doubtless to discourage the practice of remitting personal fortunes to Europe through the agency of foreign Companies, and for some considerable time it was successful in its aim, and individuals vied with one another for a share in this private trade. In fact, until 1803, the amount of goods shipped under the provisions of the Act gradually increased until it exceeded the stipulated 3,000 tons by a large margin. Two years later, however, the increased duties imposed to pay for the Napoleonic wars caused a great falling off in the demand for Indian goods and consequently in the amount of the private trade.

The idea of allowing a certain tonnage on the Company's ships for the use of individuals was no new one. Facilities of this kind were by long-standing custom granted to the officers of the ships. In fact the "indulgences," as they were called, were so valuable that the position of a Commander in one of these ships was eagerly sought after, and displaced the Church or the Army as a profession for cadets of the great houses. The Captains were allowed 56½ tons on their ships, and could either take goods for private individuals at the current rates of freight, or they could ship goods on their own account, borrowing money for the purpose from the Company at the current rate of interest. In some cases the rate of freight rose to £40 per ton, so that the officers were

able to make large incomes from this alone, and even larger sums by shipping goods on their own account. From 1785 to 1793 over six million pounds worth of goods were sold on behalf of the Company's officers. They were also allowed "primage," which was a percentage on the gross freight, and all passage money less the cost of living. This was a considerable item, for there were usually between twenty and thirty passengers each voyage. Lastly the "dunnage" employed to protect the cargo was the Captain's perquisite. Most of the porcelain which was imported from the East was shipped in this manner. In some cases the Captains were discovered reserving a greater space for dunnage than was necessary to ensure the safety of the cargo, and ultimately the Company was obliged to lay down severe regulations to prevent the continuation of this practice. It is estimated that the Captains made an income from these various sources of from six to ten thousand pounds per annum[1]; and the mates and petty officers enjoyed similar privileges on a proportionate scale.

The Act of 1793 extended these privileges to a larger circle of individuals, and if any argument were required to prove that this extension was highly desirable, it is to be found in the fact that the value of the "indulgences" enjoyed by the

[1] Vide *The Clipper Ship Era*, by A. H. Clark.

Company's officers was not diminished in the smallest degree; in fact even after 1803 the imports of the officers did not depreciate materially in value for seven years.

The Act did however have one important effect upon the Company's shipping. The East Indiamen of the eighteenth century were magnificent vessels. They were stately and well cared for, strong and costly. They were built for the most part of teak and were copper-fastened throughout. The design of the ships however was bad, so far as speed was concerned. They were built on a full-bodied kettle-bottomed model in order to carry large cargoes. Speed was never an object with designer, builder, or captain. In fact the voyage from London to India, thence to China, and back to London took twenty-two months, which compares very unfavourably with the French and American ships of the period. Consequently many ships, each requiring a great quantity of the best wood, were employed in the Company's trade, and in 1771, in consequence of the Report of a Committee formed to consider the state of the supply of timber for the Navy, an Act was passed forbidding further ships to be built for the East Indian trade until the tonnage fell to 45,000 tons. The Company was therefore obliged to encourage the building of ships in India, an industry which had been started in Bengal at the time of the

famine of 1770. When therefore in 1773 an increased amount of shipping was required, the question of employing the Indian ships upon the voyage to London as well as for the local trade became a subject of frequent discussion at India House. The Indian builders hoped that the scarcity of teak in England and the cheaper labour available in Bengal would enable them to compete successfully with the English firms. On the other hand the rate of insurance for Indian ships was very high, and this was urged in answer to the constantly repeated statement that, since Indian shipping was cheaper, it was a dead loss to the Company to employ English ships to provide the requisite tonnage for the private trade.

In the Court of Directors the use of Indian ships for the home trade was opposed upon other grounds. The statements put forward cannot fail to appear ludicrous at the present day. These ships were, of course, manned by Lascars, and it was seriously suggested that the reports which these men would carry to India about English affairs would weaken the respect in which the English were held[1]!

On the other hand England's trade had far outrun its shipping. The Company's capital was not sufficient to carry on the whole of the Indian

[1] Vide *Hasty Sketch of a debate in India House on Private Trade*, May 28, 1801, Brit. Mus. 583. h. 28.

trade, and it was therefore to their advantage to secure the freights on the surplus trade, rather than nothing at all. The Directors were however chiefly influenced by their prejudice against a "Regulated Trade." It was not so much that the Company's monopoly was attacked, but that the use of the Indian ships to carry goods on account of private individuals would really constitute a revival of the system of "Regulated Trade." The problem ultimately solved itself, for by 1803 the demand for Indian goods had so far diminished that the private trade was again left almost entirely in the hands of the Company's captains and officers.

The rapid change in the industrial character of England during the second half of the eighteenth century has been well expressed by a recent writer. "In 1754," he says, "the country was prosperous and rich, ready to start on the career of manufacturing and commercial success which, by means of the marvellous development of industrial machinery, and by the aid of the imported riches of India, converted England, within a span of fifty or sixty years, from a pastoral country into the workshop and emporium of the world[1]." This change from medieval to modern conditions was called by Toynbee the Industrial Revolution. Its

[1] *Industrial England in the Eighteenth Century*, Sir H. T. Wood, 1910.

effect was widespread. It dealt destruction to all those makeshifts which had survived from the middle ages. The movement was intellectual as well as practical. The invention of the Spinning Jenny produced a thread which was strong enough to form warp as well as weft, and thereby enabled Manchester to compete with India on an equal footing in the cotton trade, while political thinkers, and chief among them Adam Smith, attacked trading companies as mischievous anachronisms, and advocated their abolition on grounds of economic expediency. At the beginning of the century jealousy raised up foes to the Company; in the middle it was execrated for its misdeeds; and at the end the promulgation of more exact views on political economy led men to demand its abolition as a hindrance to national prosperity. Free trade was preached as a gospel: it was worshipped as a fetish. "The whole world allows that liberty is the very soul of commerce, and that it can be carried to its greatest extension only by liberty. Everybody will agree that it is competition which develops industry, and carries its exertions to the utmost point of which they are capable[1]." It was not for many years that man perceived that the laws of *laisser faire* were "sequences" rather than natural laws. The science of economics traces the results of existing conditions, and trade regulations

[1] Abbé Raynal, Vol. III, p. 186.

may be part of these conditions. "The liberty of commerce does not consist in every merchant being at liberty to do whatever he pleases, which would be very pernicious. There may be restraints upon the merchants, which are by no means restraints upon commerce[1]."

The crisis came in the first few years of the nineteenth century, when the question of renewing the Company's privileges was again mooted. Opinion ran high upon both sides. Much was written, and more was said. But the death-blow of monopoly had been delivered in 1776 by the publication of the *Wealth of Nations.* The writer protested that all monopolies and exclusive companies were pernicious except for banking, insurance, and public works. In particular, the East India Company was a bad sovereign; because it was a sovereign, its members made bad merchants. He exaggerated the corruption and waste. "Every individual concerned in the monopoly," he wrote, "from the Directors to the door-keeper in Leadenhall Street, are amassing independent and princely fortunes." But the charge of extravagance is refuted by the evidence of "a gentleman resident 30 years in India," who declared to the Committee of the House of Commons[2] that he found that the expenses of trade, conducted by himself with all

[1] Montesquieu, *Esprit des Lois*, LXX, c. xii.
[2] May 1808. Quoted by Macpherson.

possible economy, were higher than those upon the Company's trade.

Adam Smith's contention was that known as the "infant industry" argument. A Company should have a monopoly for a few years "to recompense them for hazarding a dangerous and expensive experiment, of which the public is afterwards to reap the benefit." After a short time the monopoly should cease. "When a nation is ripe for any great branch of trade, some merchants naturally turn their capital towards the principal, and some towards the subsidiary branches of it....If a nation, therefore, is ripe for the East India trade, a certain portion of its capital will naturally divide itself among all the different branches of that trade. Some of its merchants will find it to their advantage to reside in the East Indies, and to employ their capitals in providing goods for the ships, which are to be sent out by the merchants, who reside in Europe."

Adam Smith had discovered the doctrine of competition and also the theory of the division of labour. Unfortunately, he was only groping after truth, so that his great work is badly arranged and full of errors. His attack was levied against the accepted practice of centuries, and it was only an environment referable to the Industrial Revolution which enabled him to secure a national verdict The supporters of the Company were able to find

many weak points in his indictment. They urged that the social conditions of India prevented any development of the Indian trade. "Every Indian," says Macpherson, "is obliged to adhere to that business which his father and ancestors had. Hence labour cannot flow where it is required, and the industry cannot be improved by modern methods of division of labour." They also claimed that their long experience enabled them to carry on the trade in such a way, that private individuals could not compete with them. The falsity of their arguments was proved by the enormous development of the Indian trade after 1813, at which date the Company lost its exclusive trading privileges, although it was continued in the government of India.

The results of the revocation of the commercial monopoly were not so momentous as might have been expected. The dividend was limited by law to 10½ %, which represented about 3½ % on the market value. The position of the Company's servants was left almost unchanged. In fact, Wellesley in a despatch dated July 10th, 1800[1], on the subject of the foundation of a College at Fort William for Civil Servants uses words which show that the functions of these men were already far more governmental than commercial. "The denominations of writer, factor, and merchant," he writes, "by

[1] Owen's Edition, p. 722.

which the several classes of the Civil Service are still distinguished, are now utterly inapplicable to the nature and extent of the duties discharged, and of the occupations pursued by the civil servants of the Company. To dispense justice to millions of people of various languages, manners, usages, and religions; to administer a complicated system of revenue throughout districts equal in extent to some of the most considerable kingdoms in Europe; to maintain civil order in one of the most populous and litigious regions of the world; these are now the duties of the larger proportion of the Civil Servants of the Company....The Civil Servants of the English East India Company, therefore, can no longer be considered as the agents of a commercial concern. They are in fact the ministers of a powerful sovereign; they must now be viewed in that capacity, with reference, not to their nominal, but to their real occupations." It is therefore clear that the effect of the Act of 1813 upon the position of the Company's agents was only superficial. What they had long been in practice they now became in theory as well.

CHAPTER V

CHINA AND THE TEA TRADE

No account of the East India Company would be complete without some description of the origin and development of the trade in Tea, the demand for which increased to such an extent that it ultimately became the most important of the Company's imports. When the Company was first founded, tea was unknown in England, and good strong ale graced the table of tenant and landlord alike. But by the middle of the eighteenth century the Company's enterprise had raised it to a high place in the catalogue of conventional necessities, certainly among the upper and middle classes. In 1766 it was estimated that England consumed twelve million pounds weight of tea per annum. The consumption gradually increased, until, in 1813, the tea trade was the chief trade of the Company. Manchester might drive Indian cottons from the market, but the trade in tea was outside the influence of the Industrial Revolution. If it was affected at all, it

was affected favourably. The new theory of *laisser faire* led to the removal of the enormous duties, and the consequent fall in price placed the beverage within the reach of a large body of consumers.

The origin of the trade is very interesting. In its early days the Company suffered considerably from the prejudice against the exportation of bullion. When therefore in 1616 it was discovered, that both the Chinese and the Japanese were prepared to give silver for European merchandise, it hastily attempted to institute commercial relations with these countries, in order that the bullion of the Far East might finance the trade with the Indies. At first the project met with little success. The Dutch were better able to supply the needs of the Chinese than the English, and the Emperor, who was also a disciple of the bullion theory, considered it his duty to restrict the export of silver. Throughout the seventeenth century repeated efforts were made to place the trade with the Far East upon a sound footing. In 1669 a factory was founded at Cambodia, and St Helena was fortified as a port of call. Efforts were also made to carry on the trade from Bantam in Java as its headquarters. There was however in the first instance no idea of trading in tea. It is true that in 1664 the Company presented the King with two pounds of it, as a curiosity, and it had been known in

London before that date, for we find Pepys visiting a certain famous tavern on September 25th, 1660, and there tasting this novel beverage. "I did send for a cup of tee (a China drink), of which I had never drank before." The first suggestion of its possibilities came from Quarles Browne of Bantam, who wrote to the Court, declaring that the trade in "tee" offered great chances of profit, if it could once be made a fashionable beverage in Europe. In 1666 we find small quantities of it sold for £3 per pound, and in this year a further present of 23⅔ pounds was made to the King. This was purchased on the Continent, but three years later the Company received a considerable consignment on its own account. At first all the trade was carried on with India, not with Europe direct, and for some time it was only intermittent. No agents were stationed in China to sell the goods or to collect cargoes for export. A ship arrived from India, and waited while the supercargoes sold all their goods and secured a return cargo. There was considerable opposition from the natives, who treated the English merchants with scant courtesy. Much was spent in donations to the Mandarins and other Government officials, while the rivalry of the Dutch made the task of founding a steady trade still more difficult. However, when the New Company was competing with the original Company at the turn of the

century, it founded a Presidency for the whole of China at Cambodia, with one of its famous "Consuls" in residence. The Old Company replied by introducing a direct trade with Europe without the use of Madras or any other factory as intermediary, and it even sent out a Director to supervise its affairs. The trade was not yet centred in any fixed port; some ships went to Canton, some to Ningpo, some to Chusam, and some to Amoy. The New Company's agent, Catchpoole, after enduring great adversity at Cambodia, advised the removal of the factory to the island of Pulo Kondor. This was done, but in 1706 the trade was brought to an end for a considerable period by the murder of all the agents in the island.

It was not until 1715 that a well-organised and regular trade with China was inaugurated, and a factory established at Canton. At first the trade was conducted entirely with a man called the Emperor's Merchant, who paid a large sum for the exclusive privilege of trading with the Europeans. This system proved a great failure, because the Merchant had few goods and an insufficient supply of capital. Accordingly it became customary for him to allow others to share in the trade upon the payment of a fixed sum,—a practice which caused a rise in prices beyond that which was due to the duty of 4 % levied upon all foreign trade. In spite of this the popularity of

tea increased greatly in the next year owing to the introduction of green tea to supersede Bohea.

The consequent expansion and prosperity of the trade were however soon after seriously checked by the foundation of the famous Hong Society. This Society was similar to the medieval Merchant Gilds. All the merchants, who were engaged in trade with foreigners, united to form a body for the purpose of deciding upon a price at which European goods should be bought. In this way, owing to the competition between the several European Companies, they obtained a great economic advantage. The Society formed a monopoly of consumption, and was therefore able, within certain limits, to dictate what terms it pleased. The existence of this Society was a source of great inconvenience to the English for many years, and, as late as 1834, when there was a suggestion of moving the factory from Canton, the action of the Hong merchants was one of the arguments used to support the proposal. At that time there were only about twelve members of the body, and "no goods could be landed, or laded, without the permission, or under the name, of one of these men[1]." In these circumstances the trade was unnecessarily circumscribed and its natural expansion materially checked. Fortunately, however, the Hong merchants were enlightened men. They

[1] *Observations on the China Trade*, Sir J. B. Winston, 1834.

were "honourable men in their commercial transactions, and extremely liberal in their dealings with Europeans[1]."

In addition to the restrictions due to the Hong Society, the Company suffered greatly from impositions at the hands of the local authorities. "The Chinese treat all foreigners, as if they were enemies; and they act not as friends, but as foes to all foreigners[2]." In 1727 the impositions caused the supercargoes at Canton to write a letter to the head merchants, threatening to remove the trade to Amoy. The matter was compromised temporarily. In the following year, however, an additional duty of 10 % was laid upon all goods. The foreign traders united to petition against this, but insuperable difficulties were put in their way. "The Chinese, with all their boasted wisdom and policy, look upon commerce as a mean employment; and they particularly despise, and even punish with death, those who leave their native country for the sake of gain[3]." Under these conditions the high dignitaries of state were inclined to consider a petition about a commercial tax as an insult, and on more than one occasion the Mandarin requested that he should not be troubled again about so trifling a matter!

[1] *Miscellaneous Notices* re *China*, Sir J. Stanton.

[2] *Notices concerning China*, Rev. Dr Morrison.

[3] *Purchas his Pilgrimes*, L, iiii, p. 368.

At the crisis of 1730, one of the great arguments used against the continuance of the Company's exclusive rights was that under Free Trade the merchants would be able to import tea at a price sufficiently low to render smuggling unprofitable. This shows that, as early as 1730, the demand for tea was sufficiently strong to compensate foreigners for the risk of "running" it into England. In later years the abuse developed to an appalling degree, and its growth was only checked by the removal of the excessive taxation.

Despite a duty of four shillings per pound[1], tea had already become an article of universal consumption among the upper classes, and after 1736 it formed a very important part of the Company's trade. So important was it considered by the Government, that in 1745 the Company was threatened with an infringement of its Charter if it did not supply the London market with sufficient tea at a reasonable price. After this date the practice of smuggling increased greatly, and about kept pace with the growth of consumption. Abbé Raynal[2] has computed, that, in the year 1766, six million *livres* of tea were brought to Europe by the English, four and a half by the Dutch, and about seven millions by other countries. "But,"

[1] In 1722 it was 200% on sale price and afterwards fluctuated between 64% and 128%.

[2] *Histoire Philosophique des deux Indes*, Geneva, 1780.

he continues, "calculations tend to show that the English consumed twelve million *livres* per annum[1]." This estimate may not be accurate, but it is a convincing proof that the smuggling had reached alarming proportions. In order to remedy this evil the Company agreed, in 1768, to pay an indemnity to the Government, if it would withdraw the duty upon Black and Singlo tea for five years, and grant a rebate on that re-exported to Ireland or America. The trade was doubled, but the Company was obliged to pay £483,049 to the Government and £203,350 to the buyers in the course of the next five years[2]. These losses were stated to be largely responsible for the Company's financial condition in 1772. The large sums involved were due to an effort to "cut" prices, in order to destroy the competition of the foreign companies. The experiment proved so costly, because the foreign companies found themselves in possession of a large quantity of tea for which England was the only market. For them, to sell at a loss was preferable to not selling at all. The English Company made a serious loss, but the foreign companies must have made greater losses still.

On May 10th, 1773, that famous Tea Act[3], so

[1] A *livre* was about half a kilogram, or 1 lb. 2 oz.

[2] Vide *Report of Committee of Proprietors*, Dec. 1, 1772, Brit. Mus. T. 686 (3).

[3] 13 Geo. III, c. 44.

pregnant with unforeseen consequences to the British Empire, received the Royal assent. In 1769 the British Government had imposed a duty upon all tea entering the American Colonies. The justice of this act has many times been vindicated by historians and economists, but the tax was obnoxious to the colonists, who only waited an opportunity forcibly to display their irritation. In 1773 some seventeen million pounds of tea lay unsold in the Company's warehouses. Money was urgently needed. The Company sought and obtained leave to export this surplus to America on its own account instead of employing the agency of middlemen. This tea should have been sold easily, because the duty on export from England had been remitted. But the colonists refused to consume tea which paid the new import duty, and in this they were ably supported by the smugglers, who were growing rich out of the political consciences of their fellow citizens. The Boston incident was entirely the work of these smugglers, who saw their private pockets threatened. By it the Company lost 342 chests of tea, at a time when it could ill afford the loss. The whole incident is picturesque, and romantic; it requires the pen of a Lecky to do justice to its far-reaching effects. The consequent entry in the balance sheet of an almost bankrupt trade corporation was important, but it fades into insignificance when we remember that

the first and largest of the fruits had fallen from the tree of Greater Britain[1].

From 1770 to 1779 nearly fifty-one million pounds weight of tea were imported in British ships from China, making an average of 5,600,000 pounds per annum. Foreign ships brought to Europe 119,000,000 pounds weight in the same period. The consumption of tea, and its adulterants, such as that made from sloe-leaves, was about eighteen million pounds weight per annum in England alone, showing that over thirteen million pounds were smuggled in annually. "To so great a height had this illegal traffic been carried, that dealers, residing even in the Capital, could almost constantly purchase very large quantities of tea, which it was well known had never paid any duty; and which, nevertheless, came into the dealer's shop, with as regular a permit, and with as much safety, as if the goods had been delivered from the warehouses of the East India Company, and had paid the full duties. Nor was this trade confined to persons in a small way of business, or of doubtful character in the world: it was carried on by the most extensive dealers, and by those who possessed the fairest reputation[2]."

In 1784 Pitt's victory at the General Election had been due in some measure to the efforts of the

[1] Cf. Turgot.

[2] *Observations on the Tea and Window Act*, R. Twining, 1784, Brit. Mus. T. 140 (7).

Company. To show his gratitude, he brought forward his famous Commutation Act, whereby the duty on tea was reduced to 12½ % on the price of sale at the Company's warehouses. To compensate for the loss of revenue involved he instituted a window tax, which was calculated to yield £600,000. If, in spite of this, the revenue receipts diminished, the Company was to make up the deficit. The calculations upon which this tax was based were very elaborate, and, in order to ensure no deficit, it was necessary for the Company to supply the whole of the thirteen million pounds weight of tea, which, it was estimated, were consumed annually. It was Pitt's intention to ensure to the Company the monopoly of the tea trade, but, as a safeguard, a clause was inserted to the effect that, if the price rose above a certain figure, the ports were to be thrown open to foreign competitors.

The Act was eminently successful, and, to prevent further smuggling, the Company imported over seventeen million pounds weight of tea, which represented the stock of European Companies. At first, however, its effect was nullified by the foreign dealers who attended the Company's sales, and kept up the prices, in order that it might appear a failure and be repealed. This was a comparatively easy task. All the English dealers were destitute of tea, because they had refrained from buying until the new duties should come into force in anticipation

of a fall in price. They were therefore compelled to buy at prices which their judgment condemned, or else go out of business. Souchong and Congou[1] were especially scarce and their prices kept very high. The Company attempted to counteract this by putting up for sale more tea than was really demanded, and ultimately their efforts were successful.

Since the prices did not fall as much as was expected, the Act was condemned on all sides, and many exaggerated attacks were made upon it. It was also alleged that it gave opportunity for adulteration on a large scale. A substance called "Smouch," manufactured from ash-leaves and sold at fourpence-halfpenny a pound, was mixed with real tea. The manufacture of this commodity had increased to a great degree "to the injury and destruction of great quantities of timber, woods and underwoods, the prejudice and health of his Majesty's subjects, the diminution of the revenue, the ruin of fair trade, and the encouragement of idleness[2]." As the Company held the monopoly of tea, there was no redress if the standard of the commodity fell or if its purity was suspected. Twining, however, who was at once a Director of the Company and a dealer in tea, repudiated the

[1] There were five varieties of tea: Bohea, Congou, Souchong, Singlo and Hyson.

[2] 17 Geo. III, c. 29.

suggestion that the Company's tea was adulterated. He admitted that the tea sold in 1781 was old tea, and that it was not so good as that sold at the Private Trade sale, but he firmly maintained that it was tea, and not a mixture of tea and adulterants.

The opposition to the Act was however short-lived. The sincere efforts of the Court of Directors to carry out the spirit of Pitt's measure were bound ultimately to succeed. If the prices were high at first, they soon fell, and the Company's trade advanced by leaps and bounds. In 1785 it sold 16,387,433 pounds weight, as against about six million in 1784; and two years later the amount imported from China rose to over twenty millions. The expansion was such that in 1786 the Company was obliged to annex Prince Edward Island as a port of call for the China trade[1].

Apart from its intrinsic value, the growth of the tea trade reacted favourably upon the China trade in general. In 1784 the English, now the most successful of all Europeans in commercial dealings with the Far East, were able to inform the Chinese that England could not take so much tea, unless the Chinese received English manufactures. This and other influences led to a general improvement in the China trade. Tin, which the Chinese used for religious purposes, was sold in large

[1] There had been no such port of call since the Malays had driven the Company out of Banjarmassim (Borneo) in 1707.

quantities. The Dutch had previously engrossed this trade, but the superior quality of Cornish tin and the strength of the English demand for tea now secured the trade for the Company. So important did it become that, in 1793, when negotiations were pending between Dundas and the Company, Lord Falmouth wrote: "The regular and certain access to China is absolutely necessary to the existence of the trade of Cornwall." The Company finally offered to export 800 tons of tin annually at £72 per ton.

The sales of English woollens also increased. After 1784 the warehouses were repeatedly cleared, and the cash in the treasury at the end of a season had reached as much as £500,000. But in spite of this increased demand the export trade to China never showed a profit. In fact, in the decade from 1780 to 1790 the Company lost £190,917 on its exports of woollens and metal[1].

It was suggested in 1792 that a personal embassy from the King of England to the Emperor might destroy the prevalent idea that trade was a subject beneath the consideration of monarchs. Accordingly Lord Macartney proceeded to China to ask for leave to send goods to stations further north than Canton where it was anticipated that the demand for English woollens would be stronger. The embassy was a complete failure; no concession

[1] *Second Report of Select Committee of Directors*, Jan. 22, 1793, Brit. Mus. 581. h. 22.

was obtained, and the trade was still confined to Canton. Parliament however continued sanguine of success, and in 1805 sent Sir George Staunton on an equally unsuccessful mission. Nothing was accomplished. The bulk of the Chinese trade was still tea in exchange for silver and opium, and so it continued till the end. In one respect however the position improved. The Chinese had learnt to respect the Company's agents as honourable men. A package of goods with the Company's mark was accepted according to the invoice and often passed through many hands without examination. All other dealers were treated with great suspicion. It was therefore a wise impulse which directed Parliament to continue the China trade as a monopoly for the Company after the Indian trade was thrown open.

Although the trade with China was prosecuted in the eighteenth century chiefly for the sake of the tea, several other articles were imported in small quantities. Of these opium is probably the most important. It was the profits derived from the exportation of opium to China, which enabled Warren Hastings to carry on his great native wars in Bengal, and yet declare that there was a distinct improvement in the financial condition of the Presidency. The manufacture of this drug was one of the chief industries of India, and China held practically the monopoly of consumption. The

trade was converted into a Government monopoly in 1773, and in 1807 the cultivation of the poppy, except on account of the Company, was forbidden. All opium was sold by auction on the express stipulation that it should be exported, and, under Lord Teignmouth, examinations were instituted into its purity. The importation of opium into China was forbidden by law, but its introduction was connived at by the authorities; the people could not do without it. Boats filled with it anchored off Luntin, or some other island, and Chinese dealers came off in small boats to buy it. It was then smuggled into the country by the natives themselves. In addition to the opium, a considerable quantity of cotton was sent to China from Bombay and Broach (*Bharuch*).

In 1760 China and India between them provided one-fifth of the silk imported into London. There was also a considerable trade, for the most part conducted by the officers of the Company's ships, in quicksilver, furs, skins, jewelry, toys, glass, pottery, hardware and cutlery. Of these subsidiary commodities the most interesting is undoubtedly pottery. At the end of the seventeenth century a fine red earthenware called "Buccaros" was imported from China and Japan, but in the manufacture of earthenware Europe was not far behind the East. Excellent ware was manufactured at Delft, and an English "delft" was

made at Liverpool and Bristol. Porcelain, however, was only known as an importation from the East, where the secret of its manufacture from Kaolin was jealously guarded. It was first introduced into Europe by the Portuguese, but was afterwards imported in considerable quantities by the East India Company. The collection of porcelain became a fashionable hobby in the pursuit of which large sums of money were spent[1]. The great bulk however was distributed for domestic use, and has consequently perished. The growing popularity of tea caused articles made of porcelain to be used regularly, and it is interesting to note that teapots were sold by the Company at the Tea Sales for one shilling each. Later it became the fashion to use "Armorial" china, decorated with the heraldic achievements of the owners. Over this ware there is considerable controversy. Some authorities declare that it was manufactured at Lowestoft. But this factory was too small to have produced such quantities and so many varieties as are known to exist. Mr Owen, in his excellent work on Bristol china, says truly: "The fashion has become general to attribute all such china to Lowestoft in spite of the evidence afforded by its make, texture, and glaze. It is painful to see, in public and private collections, examples of Oriental ware so labelled, simply because, though hard porcelain,

[1] Horace Walpole was a noted connoisseur.

they bear English armorial coats and initials.... The officers of the East India Company's ships were accustomed to take out English delft bowls, and get them reproduced in common porcelain in China, for their merchant friends: and many a relic, now prized as of home manufacture, was procured in this manner."

The manufacture of porcelain was introduced into England about 1740, and those who engaged in this enterprise realised that it was necessary to copy, as far as possible, the Oriental ware. In 1744 Thomas Frye took out a patent for making china, "which is not inferior in beauty and fineness and is rather superior in strength than the ware that is brought from the East Indies, and is commonly known by the name of China, Japan or Porcelain ware." In 1750 it appears, from entries in the original account books, which were in the collection of Lady Schrieber, that the factory at Bow was called "New Canton," and specimens of a curious inkstand with the inscription, "made at New Canton 1750," are to be seen in the British Museum and other national collections.

All this tends to show that the Oriental porcelain was preferred to the Continental ware. In the middle of the century, when the English factories were founded, there were only three varieties in the market—the Oriental, imported by the East India Company; the porcelain of Dresden; and the

artificial porcelain of France. The English makers devoted themselves to the imitation of the Oriental —a fact which shows emphatically the esteem in which it was held.

Referring again to the "Armorial" china, it is sometimes said that Lowestoft ware was sent to China to be decorated. There does not appear to be much evidence of this, but, on the other hand, Llewellen Jewitt[1] says that the Chelsea works, afterwards so famous, were, in the first instance, primarily concerned with the painting and finishing of Oriental china, which was imported for the purpose. It would therefore appear, that the Oriental porcelain was the standard article for the first half of the century, and that early English china represents a tentative effort to reproduce the popular article, which the East India Company had introduced into the country.

[1] *The Ceramic Art of Great Britain.*

CHAPTER VI

COMMERCE AND FINANCE

We have now followed the development of the Company throughout its trials and triumphs. We have seen it assailed by a jealous Ministry and by self-seeking rivals. It has been execrated for its misdeeds and abused for its financial misfortunes. It is therefore a suitable opportunity for examining into the characteristics of the East India trade, in order to discover, if possible, how far the Company was a financial success, and to what extent its commercial methods might have been modified and improved.

Amongst the many documents of interest, which are preserved at the India Office, there is one, which Sir George Birdwood has transcribed, containing an account of a sale at the "Blew Warehouse, St Helens[1]." The articles for sale covered a large range, as the following extract will show. They included: "Cubebs, Vermillion, Copper, Mother-of-Pearl, Tortoise-shell, Quicksilver,

[1] *Second Division of Documents*, Vol. II.

Sticklack, Safflower, Indigo, Green Ginger, Sugar Candy, Cassia, Lignum Aloes, Anacardium, Benjamin, Charranoyl (i.e. a preparation of India Hemp), Sago, Gallingall, Cowries, Tincal (i.e. crude borax from Thibet), Nux Vomica, Long Pepper, Cotton Yarn, Tea, Cake Lack, Elephant's Teeth, Shellack, Gunnys." The document also contains an account of the various articles to be seen at the warehouses. "At Bartolph Warfe, Cowries, Red Wood and Sappan (a species of wood): at Leadenhall Street, China Raw Silk, Bengal Raw Silk, Floretta Yarn (? Floss Silk), and 'piece goods' of various kinds: at India House, China ware, both Nankeen Blue, and Painted Porcelain,—an immense quantity; also Japan ware: at the Blew Warehouse, Blew Longcloth, Damasks, Satins, Persian Taffaties, Velvet, Diapers, Chintz, Painted Pelongs (i.e. bed covers), Gold Gauze, Chawools (shawls)."

The articles enumerated above form a characteristic list of the various commodities which the Company imported. Firstly there are Drugs and Spices. These formed a large proportion of the original Eastern trade, especially when it was an overland trade. Pepper, the most important of these, was originally found in the Spice Islands, but, after the massacre of Amboyna, the Company was obliged to look to the mainland for its supply. There it was chiefly obtained from the

district extending from Goa to Cape Comorin on the Malabar Coast. Towards the end of the eighteenth century the English obtained a million and a half pounds per annum from Tellicherry alone. Tea was brought from China, and coffee, which is not in the lists quoted above, was imported from Arabia. Later, the trade with Arabia was allowed to lapse, so that at the end of the eighteenth century there were suggestions that private individuals should be permitted to trade there, the argument being that, although Arabia was within the limits of its Charters, the Company did not trade there itself and would therefore in no way be injured if private individuals did so.

Secondly there are the cotton goods. Cotton was for a long time the most important article imported from India. So skilful were the natives in its manufacture that, until the invention of the Spinning Jenny, no European could compete with them. The Indian cottons enjoy the distinction of being the subject of several Acts of Parliament. Their introduction was held to be inimical to the English wool trade, and it was made illegal to purchase or to sell them. Later they were again banned because their importation injured the newly founded Manchester industry. The trade was, however, so profitable that it survived all attacks, and in 1788 the increased demand caused the Company to distribute cotton seed throughout

its territories with a view to increasing the supply. English patterns were repeatedly sent out to India, and the natives were instructed in making their goods of such sizes and lengths as would render them saleable in England. The chief centre of the cotton industry was the Coromandel Coast. From here quantities of fine white cotton were exported to be dyed in England, although the Company endeavoured at the same time to introduce European methods of dyeing into India. The magnitude of the trade may be judged from the fact that in 1773, in spite of home competition, 3,000 bales of cotton, worth £40 per bale, were imported into England.

The silk trade, on the other hand, only enjoyed intermittent prosperity. Generally speaking the European silk was superior to the Indian. The Italians long held the premier position, and the Indian spinners never succeeded in driving them from the market. However, a considerable quantity was imported from India, and as early as the year 1674 the Company sent out dyers to treat the Indian silks for the home market. The great silk-producing district was Bengal; the chief centre for collection and distribution being at Kasimbazár. Although the amount of silk imported was large it was the general use of cotton, not of silk, which was said to be detrimental to the woollen industry, and which made the Company so unpopular in the

beginning of the eighteenth century; for silk was never a staple industry in England. In 1772 an attempt was made to introduce Italian methods of spinning into India, and in the next few years the quantity of silk imported from Bengal was exactly double that imported from Italy and Turkey. This turn for the better was followed by a great decrease in the general demand for silk, due to the fact that cotton, which was now manufactured by improved methods, was able to displace the former as an article of clothing amongst English ladies. So serious did this become that between the years 1776 and 1785 the Company lost £884,744 on its silk sales, and the total value of the silk sold during the years in question was only £3,449,757.

The most interesting event in the history of the silk trade was an attempt on the part of the Company to "throw" their surplus silk into "organzine[1]." This occurred in 1794, and called forth a strong protest from English spinners. The Company supported its action, as was its wont, by declaring that it was actuated by a desire to benefit the nation at large rather than its own shareholders: "The Company deeming it expedient to enlarge their imports of Bengal raw silk, a plan has been devised, the object of which is to occasion an increased consumption of the

[1] Thread suitable for warp, made by twisting together two or more of the finer filaments into which silk is first spun.

commodity, by throwing some portion of it into 'organzine,' to serve as a substitute for part of the organzine at present imported from Italy.... *The plan is calculated not altogether for the Company's benefit. The interest of the country at large is also involved therein*....The throwing of 300,000 pounds of silk will create employment for at least 7,000 persons, nearly the whole of which may be taken from the parish work-houses, whereby an advantage will be derived to the country of £70,000 per annum, at present expended in their maintenance[1]." The real motive, however, was a hope of recovering the losses of the previous year. In February the Company had persisted in putting up for sale a greater quantity of Bengal silk than the retail dealers were prepared to buy. Thereby prices were lowered; the trade was seriously injured; and the Company itself made a loss of £50,000. The Directors hoped to recover this loss by selling Bengal silk ready spun in organzine. There was, however, something in the nature of a "boycott": the only manufacturers who supported the Company were the ribbon makers, who had fallen upon bad times owing to the change of fashions. The effort was therefore a failure. The First Report of the Committee of Warehouses

[1] Minutes of Committee of Warehouses, Feb. 1, 1794 (quoted in *Considerations of an attempt of the East India Company to become manufacturers in Great Britain*, 1796), Brit. Mus. 583. h. 28.

shows that in 1794 the Company made a loss of 4*s.* 3*d.* per small pound on its organzine, and a similar loss at the two succeeding sales (March and September 1795). These losses continued for some time, until the Company was compelled reluctantly to admit that the Industrial Revolution, as well as injuring the cotton trade, had temporarily destroyed its silk trade[1].

Fortunately the failure of the silk trade was counterbalanced by an increased prosperity in other directions. The profits upon the sale of tea developed enormously in the second half of the eighteenth century. At times, there was a considerable surplus revenue in Bengal and elsewhere, which enabled the Company to secure its Indian goods free. And lastly, the trade in indigo grew so rapidly in the last few years of the century, that in 1805 the amount exported from Bengal alone was nearly four times as great as cotton and piece-goods together.

In India itself a considerable local trade was conducted by the Company's agents and other private individuals. A report from Bengal in 1795 shows a large trade between Calcutta and Asia, in addition to that with Europe and the United States. British or native merchants, resident in

[1] It is noteworthy that in the nineteenth century the silk trade had a renewed prosperity and silk became one of the chief commodities in which the Company dealt.

the Company's territories, traded with every place east of the Cape of Good Hope except Japan, from which country all foreigners except the Dutch were excluded. In India itself the trade in salt had reached large dimensions. The English entered the trade in 1757, and after that date gradually secured the preponderating influence in it, so that it became a virtual monopoly. Mr Keir, a member of the Council during Verelst's term of office as Governor, himself employed 13,000 hands in its manufacture. Profits as large as 100 °/₀ were often made. Salt was manufactured almost exclusively at Masulipatam or in Persia, where the conditions under which it was made were extremely unhealthy, and the necessity for employing men in situations, in which they became the victims of ferocious animals and terrible diseases, was the chief objection to the monopoly. It was held by some that sufficient could be secured from the Coromandel, and that thereby the unhealthy conditions would be obviated, but all improvements met with the resistance of a strong vested interest. In 1780 Warren Hastings abolished the system of farming out the factories for periods of five years, and placed the trade under Government control, thereby securing an annual revenue of about £500,000 for the Company, and making improvement in the conditions of manufacture feasible. Further improvements were introduced by Lord Cornwallis,

who instituted sale by auction in small lots, and devised various measures for the protection of the natives engaged in the factories. These regulations are peculiarly interesting in view of the opposition of the famous Manchester School of Economists to all factory legislation at home.

The Company also secured a large revenue from the opium trade, of which it had a legal monopoly. Until 1785 the monopoly contract was disposed of by private treaty; but after that year it was sold to the highest bidder at a public auction. The Company was therefore the seller of the monopoly, and the chief consumer of the finished product. It fixed the price at which opium was to be sold, and thereby made its own price for its own purchases. According to Mill, it fixed the price at which the contractors were to supply the drug at less than the price which it ordered them to pay the native grower! It was therefore impossible for a contractor to obey the law; his alternatives were to be ruined himself, or illegally to oppress the small grower. These abuses continued until Lord Teignmouth became Governor-General, when the entire system was reorganised and placed upon a more rational basis.

In addition to these ordinary trade commodities, the Company was compelled to supply certain articles to the English Government. In the seventeenth century the Government's agents had

attended the public sales, and "bought at the candle" on equal terms with the private buyer, but by the eighteenth century this practice had been abandoned. Clauses were inserted in the various Charters, obliging the Company to supply fixed quantities of the goods in question at fixed prices. Of these the most important was saltpetre, which was largely used in the manufacture of gunpowder. It was first imported from India and Persia, although later it was found in Europe as a natural product and was artificially manufactured in England after the time of Elizabeth. It was produced very cheaply in Bengal, and the English gunpowder manufacturers held the monopoly of consumption. Therefore we find the Company resisting a reduction of price in 1773, on the grounds that the reduction would not lower the price of powder, but would merely transfer the Company's just profits to the manufacturers[1].

In addition to saltpetre, the Company endeavoured to supply the Government with hemp for its shipping. In 1796 it imported a species of hemp, which grows in Bengal and Salsette, and tried to push its sale by tests against the standard article from the Baltic. Unfortunately the Indian hemp was not a commercial success, and after losing £45,000 the Company abandoned the scheme.

[1] Vide *Report of Select Committee of Directors*, Jan. 22, 1793, Brit. Mus. 581, h. 22.

Four years later, when difficulties arose with Russia and the price of Russian hemp rose to £61 per ton, the Government ordered the Company to import a further supply of the Indian variety. Again, in 1809, when England was strongly beset by Napoleon Bonaparte, the Company offered to import Indian hemp at cost price—an offer which was gladly accepted by the harassed Ministry.

This offer was but another of the many patriotic actions for which the Company should receive due credit. Throughout the century there are repeated offers of men and ships, fully equipped at the Company's expense. Not content with fighting unaided its country's battles in India, the Company wished to have a share in the victories which England secured in all parts of the world. If ever British troops landed in India to fight the battles, not of the Company, but of the nation, the Company alone paid and supported them from the time of debarkation. This precedent was further developed in 1788, when it was enacted that if the Commissioners for Indian Affairs saw fit to send the King's troops to India the Company might be called upon to pay the bill. In spite of this severe treatment the Company voluntarily provided 10,000 tons of shipping to the Government for six months in 1803, and considered that its interests were so closely connected with the growth of British influence, that it presented Lord Nelson

with a large sum of money as an expression of its gratitude to him for the victory of the Nile. The bitter attacks with which its actions were so frequently assailed, the accusations of corruption and of selfish motives, lose much of their force, when it is remembered how great a portion of England's final triumph in the struggles of the eighteenth century should be attributed to the self-denying patriotism of this mighty corporation.

With regard to the Company's exports, it may be said at once that they never formed an important part of its business. It was, however, compelled to continue the export of British goods, at first by the strength of popular opinion, and later by clauses in its Charters. The Mercantile Theory, which declared a country's wealth to depend solely upon its store of the precious metals, made it necessary for the Company to export as little bullion as possible. Further, any commercial enterprise, which did not materially benefit the great English wool trade, was considered to be unprofitable to the nation at large, even though its returns were exceedingly advantageous to the merchants concerned in it. Throughout its history the bulk of the Company's exports, apart from bullion, were Camblets, cloth and other woollen goods; metals, particularly tin and copper; naval and military stores. In spite of the prejudice against the practice, bullion was the chief export, and in the

first half of the century it far exceeded in value the consignments of merchandise. From 1710 to 1759 £26,829,207 was exported in bullion, while the value of the merchandise delivered in India was only £9,248,296. After the Company secured control of the revenues of Bengal its export of bullion fell considerably, for the Indian goods destined for the home market were purchased with the surplus of the territorial revenue. In 1757 England took one and a half millions sterling from India, of which £58,000 was in rupees, and the rest in specie and jewels. From 1760 to 1809 the figures were £14,656,587 in bullion, and £48,658,458 in merchandise. This increase in exports in kind was partly accounted for by the large demand for military stores, but at the same time it must be admitted that the Company had really succeeded in creating a demand for European manufactures, especially in China. In 1786 the goods exported by the Company represented the work of six million people, and by 1812 the number employed in this way had been doubled.

The export trade was never a success financially, and in the six years from 1785 to 1790, although the demand for European goods was rapidly increasing, the Company lost nearly £30,000 on its exports of woollens and metals in the three Presidencies[1]. These losses should be considered

[1] *First Report of Select Committee appointed by the Directors*, 1793.

as part of the tribute which the nation levied upon the Company, in return for its exclusive privileges. That this was the view of the Government, is shown by the arbitrary manner in which the Company was ordered to export a fixed quantity of English goods yearly, irrespective of the Indian demand, and then suddenly, at times of scarcity, was ordered to desist. Such treatment effectively prevented the Company from building up a trade in the exported commodities, for just when the trade was beginning to show signs of improvement, the export would cease[1].

With regard to the financial methods of the Company, few generalisations are possible. It was managed by the leading merchants of one of the greatest commercial cities in the world. These men may at times have fallen into errors, but their policy was based upon the best principles of their age. In the seventeenth century the principles of Joint Stock Trading were slowly developed, and it was but natural that the leaders of the Company should be at fault in their estimate of the legitimate use of credit. They were burdened with heavy political and judicial responsibilities, from which their French and Dutch rivals were free. Most of their capital was absorbed by loans to the Government in return for their privileges. There was, therefore,

[1] Cf. in 1793 the Government ordered the Company to export a certain amount of copper, but in 1799 they ordered the export to cease, because so much was needed by the Navy.

a strong inducement to strain the bounds of their credit, especially as there were few men at this time who realised sufficiently clearly the limits within which credit will serve to take the place of capital.

In 1737 the Company's capital was £4,200,000, all of which, it is important to remember, had been lent to the Government. Their trading capital was the interest upon this sum, which was paid by the Treasury out of the national taxes. The general practice, when money was required, was to negotiate a loan on the security of this debt. In this the Company was wise. For such was its credit, that it was generally able to borrow at considerably less than the current rate. Had it increased its capital, it would thereby have incurred a perpetual liability. The Directors shrunk from this responsibility and wisely preferred temporary loans, although new capital could have been secured at a high premium. Thus after Pitt's Act and the Peace of Versailles the volume of trade expanded sufficiently to render an increase of free capital imperative. The Directors were obliged to depart from their usual practice and to obtain this, partly by selling a portion of the Government annuity, and partly by a public subscription of £800,000, which was floated at 155 %. The capital stock was thereby reduced to £4,000,000. A further million was however added to it in 1789 at 174 %, and finally, in 1793, it was raised to six millions sterling.

Throughout the century there were frequent occasions when the Company was hard pressed to meet its liabilities, and yet, during that period, it succeeded in conquering a vast territorial empire. The explanation of this curious fact is that the Indian Empire was conquered by Indian troops, paid with Indian money. It is often said that conquest pays its own expenses, but this applies only to the financial disbursements which are always recovered from the conquered nation in one form or another. Dead men, however, cannot be brought to life. It was the employment of Indian troops, which enabled the Company to conquer India at a time when England herself could spare neither men nor money, so hard did her enemies beset her at home. The native wars were always followed by an accession of territory or a large indemnity, and sometimes by both. The sum of 1,50,00,000 rupees[1] was paid to the Company as compensation for losses at the time of the Black Hole of Calcutta, and between 1757 and 1763 it received £5,940,498 on account of its share in the three revolutions in Bengal. It is therefore difficult to understand why the Company's agents were compelled to raise money by drawing bills upon London and by local loans. Yet such was the case. The Indian debt reached alarming proportions at the end of the century, and the practice of drawing bills upon

[1] About £1,700,000.

London was within a little of rendering the Company bankrupt.

The origin of this practice was the desire on the part of all Europeans in India for a means of remitting their private fortunes to London. The Company's trade required a considerable shipment of bullion annually, and consequently it was to the advantage of both parties that the Company should pay cash in London in return for cash in India. Unfortunately the theory of the transaction was imperfectly understood. If the money borrowed in India had been expended upon goods for export, the Company would have been able to meet the bills with the proceeds of its sales. Actually the money was spent upon unproductive work, such as fortifications and military expenses. At the same time the value of the exports, far from being increased, was reduced. Thus the Company found itself called upon to pay large bills, while its sales constantly decreased. The Directors repeatedly protested, but in vain[1]. In 1768 they wrote advocating the adoption of a system of local loans at interest, if the circumstances really required money to be raised. In any case, the amount drawn upon London was to be limited to £70,000 per annum. In spite of this, the practice continued. Between 1771 and 1779 Bombay alone drew on

[1] Cf. Letter, Nov. 11, 1768. *Eighth Report of Committee of Secrecy*, 1773, App. I.

London for £487,874, while, between 1801 and 1810, the total for the whole of India reached £10,000,000.

The agents in India were unable to realise the dangerous results of their action. The money of private individuals had to be remitted to Europe somehow. They were largely excluded from remitting their fortunes in goods and were therefore obliged to employ the agency of other European companies for the purpose. The Dutch and French Companies were both largely financed by this means and were only too willing to give cash in Europe for purchasing power in India. The money borrowed in India was expended upon goods, which were shipped to Europe and sold at a profit. The borrowed capital was then returned, while the companies kept the profits. To the agents in India therefore it appeared suicidal to allow this available capital to pass into the hands of their Company's rivals.

The question was important in another respect. Warren Hastings declared that the remedy for the drain of specie from Bengal, which had temporarily become a very pressing problem, would be provided automatically if the Company bought up all the bills offered; for then the foreign companies would be obliged to send bullion to India, the influx of which would compensate for the surplus on the territorial revenue exported on the Company's

account. Clive also had perceived that the only hope of overcoming this difficulty lay in the foreign companies. In his evidence before the Committee of the House of Commons, he said that some encouragement should be given to "foreign nations," who bring out silver. "We," he said, "do not pay for our investments, securing them from the revenues. Hence some bullion must be brought in to make up for that which we ship to China and elsewhere[1]." The chief cause of all the financial difficulties of this century was undoubtedly the supposed wealth of India, the tradition of which dated from Roman times. The great number of kings and princes who were obliged to accumulate bullion to meet the emergencies of a tropical country under semi-civilised conditions, misled the early travellers by their magnificence and display. In reality the common lot was very wretched. The population was almost entirely composed of small husbandmen, who, being without any reserve of capital, were always at the mercy of the tropical climate. There was very little wealth in existence, and most of the existing supply was hoarded by the chiefs and princes. The cessation of the influx of specie consequent to the acceptance of the Diwani by the English was bound to have serious effects for a time and at first, owing to the supposed wealth of India, a considerable drain occurred. In 1757 alone

[1] *Third Report.*

we took out a million and a half sterling in rupees, specie, and jewels. The effects of the scarcity of money were rendered all the more serious by the fact that in a country like Bengal the people would not trust a paper currency, and because, although money was scarce, it was still collected as revenue, and either locked up in the Nawab's treasury or sent out of the country. Some also was hidden by the natives, who were suspicious of a despotic government. This tendency to hoard bullion was due to the unsettled state of the country, for in times of political disturbance it is hard cash alone which can save a man from starvation: credit is useless. In France it still has an important effect upon banking, for the nation has not yet forgotten the troublous times of the Revolution. In the three years subsequent to the acceptance of the Diwani, the nett export of bullion from Bengal was £4,500,000. Meantime the exchange value of the rupee rose to half-a-crown. The scarcity of money was even more noticeable ten years later, when Warren Hastings declared in his Memoirs, that Bengal could yield a crore of rupees to the Company, but *all* its remittances must be made by trade. "Every rupee withdrawn in specie will gradually exhaust its vital strength. Some respite must be given to this otherwise prosperous district to retrieve its currency."

An insight into the condition of Indian finance

can be obtained from the reports of the Committee of Secrecy of 1781. Bombay was always a great expense. All the profits of its trade joined to its revenue were insufficient to meet its expenses, which from 1771 to 1777 amounted annually to about £400,000. Of this about one fourth was raised by revenue; the remainder was received from Bengal and London, or raised in the form of local loans. The local debt increased from £90,059 to £1,052,527 before the end of the century. In the same period the nett revenue of Bengal rose from £2,373,650 to £2,784,502, while the total expenses decreased from £1,705,279 to £1,073,216. Warren Hastings claimed that this apparent increase in prosperity was due to his efforts. When he took charge of Bengal it was loaded with debt, and, to quote his own words: "in less than two years I saw that debt completely discharged and a sum in ready cash, of the same amount, actually accumulated in store in the public treasuries." This claim, however, was somewhat illfounded. No improvement had been made in the productive powers of the country, and the gross revenues had decreased, although there was a slight temporary improvement in 1775. The change was mainly due to bills drawn upon London by his predecessor, to a reduction of the allowance to the Nawab, to the 50 lakhs which the Nawab-Vazir of Oudh had paid in return for the retrocession of Karra and Allahabad, and to

the 40 lakhs obtained from the Rohilla transaction. At the end of the century Indian finance was therefore in a very precarious condition.

At the beginning of the next century the Company gave some attention to its Indian debt which, in 1809, in consequence of the Mahratta war, had risen to nearly thirty-one millions sterling. The existence of this debt rendered it necessary to keep two treasuries, one in London and one in Calcutta, because the lender was granted the right to be paid either in India or in London. Such an arrangement was economically wasteful and added materially to the financial difficulties of the Company. In 1809 this Optional India Debt caused a deficit in London of over a million sterling; the Company was only extricated from its embarassments by the action of the Government which came to the rescue with an issue of Exchequer Bills for a million and a half. To prevent a recurrence of this crisis most of the Optional Debt was paid off in India within the next year by the expedient of raising loans at a lower rate of interest payable only in India, but the remainder was at once presented for payment in London to the temporary distress of the Company. Finally in 1811 the English Government allowed the Company to transfer its Indian debt to London, by the issue of bonds for £1,000,000, which were readily bought up in London at a premium. All the Company's

financial liabilities were henceforth located in London, and there was no further need for a treasury in India.

So far it is the moments at which the Company was suffering from financial distress which have been emphasised. The account of its development has inevitably been concerned with its failures rather than with its successes. It is true that in its early years it was attacked by jealous rivals on account of its great wealth and prosperity, but in later years, when the process of divesting it of its privileges by slow degrees had commenced, the Government always selected times of financial distress as opportunities for its interference. These periods were comparatively few and far between, and there are in reality far more frequent testimonies to the great wealth of the Company and to the value of the Indian trade to England. What then is the real truth of the matter? Was the trade beneficial to England as a whole or not?

Before the Union of 1709 the trade though subject to great fluctuation always showed a profit. In 1682 the dividend reached the enormous figure of 160 % but at the end of the century, things were very different. In 1709, after the Union, it was only 8 %, rising in 1710 to 9 %, and two years later to 10 %. The average rate during the century would work out at about 9 %, and it only rose above 10 % from 1768 to 1771. In 1723 a slight

fall was caused by the competition of the French Company, and a further fall of 1 % followed an increase of capital and the foundation of the Swedish Company in 1732. In 1744 it rose again to 8 %, and continued at this rate for eleven years in spite of continual war both in Europe and in the Carnatic. In 1755 the unsettled condition of affairs at last had effect and a fall of 2 % resulted. In 1760 the cession of Bardwan and other provinces increased the working costs of the Company, and kept the dividend at 6 %, so that the sum distributed annually was £191,644. In 1767, in consequence of the acceptance of the territorial sovereignty of Bengal, the dividend was raised to 10 % and the amount so distributed reached £319,408. This rise was quite unjustifiable and was largely due to the exaggerated estimate of the prosperity of India. The increased dividends, declared in anticipation of large profits which were never fully realised, were paid by means of loans raised at exorbitant interest. For five years the Company hung on in the hope of better days, but in 1772 the crash came, and the dividend fell from 12½ % to 6 %. Lord North then intervened, and, for the future, the Company's dividend was subject to ministerial control. The Regulating Act was followed by renewed prosperity, and the dividend continued to rise slowly. In 1792 the conclusion of the peace with Tippoo, whereby the Company received a

revenue of £240,000 and an indemnity of £1,600,000, was followed by a further rise of 2 %, and, in 1802, the dividend reached 11 %.

Throughout the century the Company's stock was always at a premium. In 1720 it was quoted as high as £450, but by 1755 it fell to £148. This figure represented much more nearly its real value. Even supposing a dividend of 10 % to be the average, this would only mean interest at the moderate rate of about $5\frac{1}{3}$ % on the cost price. It continued to fall until 1766, when the prospect of profit from the revenues of Bengal caused an artificial boom, which inflated the price to £233. This was followed by a fall of 60 % as a result of war in the Carnatic. From 1779 to 1788 the price was much more reasonable. It averaged about £150, although at the crisis of 1784 it fell as low as £118. 10*s.* 0*d.* After Pitt's Act prices improved, and by 1787 it was quoted at £185. 10*s.* 0*d.* Subsequently the fluctuation largely decreased. The Company was now a sovereign ruler, rather than a trading corporation. It paid a fair interest to its shareholders, and its stock was quoted at a price which represented the capitalised value of its profits. There was no further scope for speculation. Its balance-sheet began to resemble the Indian Budget of later years.

With regard to trade returns it may be said that until the year 1744 there was very little

variation. In 1732 the Company first began to make up yearly accounts, and in this year the sales amounted to £1,940,996; the bullion exported was £393,377; and the exports were valued at £105,230. This shows a large margin of profit, out of which expenses and dividends were paid. Also a considerable sum was paid to the Treasury in customs duties. In 1744 the total value of exports, including goods and bullion, showed an increase of £200,000, while the value of the sales remained practically unchanged. This can be almost entirely explained by the increased export of military stores, which were required for the local wars.

In the years 1761 and 1762 £3,854,000, provided out of the territorial revenue of Bengal, was invested in goods for shipment to England. A further sum of £2,358,000 was remitted for commercial purposes to other stations, with the result that the territorial receipts were exceeded by £737,000. This large abstraction of capital materially impoverished the district and laid the foundations of the local debt.

At the time of Lord North's Regulating Act it was suggested that the Company's liabilities exceeded its assets, but the facts were exceedingly difficult to investigate and the statement was never really proved. The Company itself produced accounts which showed a large balance to its

credit. These accounts were perfectly genuine, but it should be carefully noted that the success of the calculation depended entirely upon the allowance made for such assets as India House and buildings, fortifications, and the like, in India. Most of these assets would never have realised anything like the figure at which they appeared in the Company's books and in many cases would have been practically valueless had the Company ceased to exist. Making no allowance for dead stock abroad, Mill calculated that the total assets of the Company at this date amounted to £2,930,569, which represented a depreciation of £1,269,431 on the capital stock (£4,200,000). At the end of the year 1772 a Committee of the Proprietors published a report on the condition of the Company's affairs since the year 1766. For the years 1766 and 1767 these accounts contained an allowance of £200,000 for bad debts, but in 1768 the amount was written off. This had a material effect upon the ratio of assets to liabilities, and altered to some extent the apparent prosperity of the Company. The report shows a considerable balance in favour of the Company until 1771, in which year the local wars changed a balance into a deficit. By 1772 this deficit had reached over a million sterling. Meantime the accounts in London showed an alternation of profit and loss. This was due, in the later years of the period

under consideration, to the large sums paid to the Treasury for the indemnity on tea. The nett sales during the period of 1762 to 1769 were about three millions sterling. In 1772 the nett profits of the Company were calculated at £567,866. After this they remained at about £1,500,000 annually for six years.

The next occasion on which the solvency of the Company was challenged was in the year 1784. The Company was heard through Counsel at the Bar of the House of Lords. John Amies, the Company's Accountant, brought forward a statement, whereby he showed a balance of £3,968,481, in favour of the Company. This however valued the landed property in India at £1,398,679. There were, he declared, fifty-five ships abroad whose cargoes should yield nearly eight million pounds sterling, a sum amply sufficient to liquidate the Company's debts at home. He also stated that the territorial acquisitions were indebted to the trading stock to the extent of £3,600,000 exclusive of interest. In 1779 the nett profits fell to £377,677, and two years later they were only £275,782. Soon after this they again rose to over £1,000,000; the second million was reached in 1787; and two years later the figures were £2,807,444.

In estimating the profit of the Indian trade to the country, it is necessary to remember that a

large yearly tribute was paid to the Government; that enormous sums were paid in customs dues and taxes; and that a considerable sum was paid by the Company indirectly, because it was compelled to export British goods at a loss. Therefore, even if the balance-sheet of the Company had shown a deficit, it was quite possible that the nation as a whole had profited by the trade.

The year 1792 to 1793 has been selected by a distinguished writer as the period of greatest prosperity abroad in the century. "If I were called upon," he says, "to point out the period when the Company's finances abroad were in the most prosperous state, I should probably fix upon the year 1792—3, for then we possessed an annual surplus sufficient to liquidate the territorial debt in little more than three years[1]." However, from 1792 to 1797 this surplus was gradually decreased, and for the next decade there was, with one exception, an annual deficit. In 1793[2] the Indian debt stood at £7,971,665, while in London, exclusive of capital stock, the liabilities were nearly £11,000,000. In 1797 when the annual deficit set in the debt began to accumulate in a way that exceeded all previous examples. However, in the early years of the

[1] Tucker, on the financial position of the Company, 1822, Brit. Mus. 583, e. 10.

[2] The interest on this debt was charged on the Commercial Account.

nineteenth century the Indian debt was completely paid off, while a considerable portion of the debt at home was liquidated with the help of reimbursements from the Treasury. For example, in 1805, a Parliamentary Committee agreed that over £2,000,000 was due to the Company for sums expended by it at the request of the Crown. By 1813, therefore, when the commercial monopoly was taken away, the Company was once again in smooth waters.

CHAPTER VII

CONCLUSION

Clive's seizure of Arcot in 1751 was for a long time considered to mark the beginning of the British conquest of India. It is impossible in reality to fix upon any date as that at which the success of the English definitely began. The wars of Clive and Warren Hastings, the discomfiture of Lally and Dupleix, and the acceptance of the Diwani of Bengal, marked indeed a new era in the Company's history, but the way had been paved by the less famous actions of such men as Job Charnock and Governor Pitt of Madras, who are equally responsible for the creation of the Indian Empire. The history of India does not stand alone; it falls into line with the political history of Europe. The ascendency of the Portuguese was followed by that of the Dutch, who, in their turn, yielded place to the French. It was France that was the protagonist in the struggles of the eighteenth century, and it was at this time that the outstanding feature of English history was the expansion of the island

kingdom into a mighty empire. Consequently the rivalry of the English and French Companies became an event of international importance in political history, and it is for this reason that historians have fallen into the error of assuming that the conquest of India by the British nation began in the middle of the eighteenth century. This view is fundamentally wrong. The Dutch were quite as dangerous in the seventeenth century as the French were in the eighteenth, and the rivalry of the Ostend Company was as keen as that of the French Company. The fact that the French Company was apparently destroyed by force of arms, while the Dutch Company was worsted with purely commercial weapons, is only calculated to mislead the enquirer.

The Dutch Company was formed by the union of several local societies in 1602, at a time when the Dutch were the chief commercial and naval power in Europe. They attained this position by reason of their national characteristics, and the geographical situation of the Netherlands. In India the presence of the effete Portuguese contributed largely to their success. In less than fifty years they were able to capture more than three hundred Portuguese East-Indiamen, and thereby to secure large sales at home, although their exports were small. They captured the forts and factories of the Portuguese, and so secured their bases abroad

without expense. Moreover they wisely restricted their settlements to the islands of the East, by which policy they were spared the risks and expense of native wars. At home there were no manufacturers to declare that the importation of Indian fabrics was harmful to national industries. On the contrary, their carrying trade was their staple industry, and consequently the Government did everything to encourage the development of Indian commerce. No fines were imposed for the renewal of the Company's Charters, and its property at home and abroad was scrupulously respected. Over a period of one hundred and sixty years its dividends averaged more than 24 %, and from 1732 to 1743 they ranged from 12½ % to 25 %, while the dividend of the English Company remained as low as 7 %. Its capital however was only about half a million sterling, and in the later years of the century, when the competition of the English Company was more serious, it employed the remittances of Europeans in India to capitalise its undertakings. It was this, together with the possibility of importing tea for smuggling into England, which enabled the Dutch Company to withstand the competition of its rival. It was however entirely dependent upon state-aid, and was marred by all the faults of such a corporation. In 1751 Mossel, one of the ablest of the Governors of the Dutch East Indies, summed up its position in

a striking metaphor. "It was," he said, "a leaky vessel, that was kept from foundering only by the pump." Consequently when the Dutch nation emerged from the struggle with Louis XIV, defeated and financially exhausted, the Dutch Company was compelled to surrender the chief position in India.

If the failure of the Dutch Company to retain the supreme position in India was due to the fact that it was a state-aided corporation, the ultimate fate of the French Company was even more closely dependent upon European politics. The first French Company was founded in 1604 as a part of the financial reforms of Henry IV and Sully. This failed through lack of funds, and was succeeded by two other equally transient efforts on the part of the Government to promote a trade with the East. Colbert also attempted to create an East India Company under the direct patronage of the Court, but at the death of Louis XIV its affairs were far from satisfactory. The repeated failures of these early companies are entirely referable to their close connection with the Court and its vacillating policy. In 1719, however, a renewed prosperity was secured by the union of the East and West India Companies under the style of the "COMPANY OF THE INDIES." In the following year the affairs of the united Company were so blended with those of the state, that it was ministerial rather than commercial, and the connection was so intimate that the dividends

were paid from the royal treasury without any consideration of the profits or losses of the undertaking. Consequently when France was fighting England in Europe the French Company, being an agent of the state, was ordered to attack England through her Indian possessions, and the ultimate victory of England in the struggle for India has been ascribed by many writers to the effect of this government control. The English Company was not subjected to the dictation of the home government, so that, when the French attacked the English settlements, the English attacked the French trade. The English navy defeated France, and the French East India Company stood or fell with the French nation. Consequently the French Company was compelled to surrender the English settlements, which it had captured, but could not demand, in return, the restitution of its trade[1].

Compared with its two great rivals, the English Company stands out as a conspicuous instance of the success of private enterprise as opposed to state-aided venture. It is true, in its early days, it was granted exclusive privileges in the form of a legal monopoly. But these rights were purchased by large loans to the state, while the continuance of the monopoly was made to depend upon the fulfilment of many severe conditions. The Company

[1] A somewhat different view is put forward by Sir Alfred Lyall in his *Rise and Expansion of the British Dominion in India*.

was saddled with heavy political and judicial burdens. It was also compelled to fight the nation's battles without financial assistance from the Government. It was subjected to the bitterest attacks at the hands of British manufacturers and to searching criticism from jealous rivals. It continued, however, to prosecute its affairs with justice and moderation, and the self-reliance and strength, which it had gained in its periods of trial, rendered it more than a match for its formidable rivals in the second half of the eighteenth century.

It is sometimes said that the English Company was always actuated by purely commercial motives, and that its participation in the native wars was its misfortune and not its fault. This is an exaggeration. The Directors were aware that war was inevitable, and on occasions[1] openly commended the high-handed actions of their agents. But if, in their opinion, the participation in a war was unjustified by future commercial advantage, they reprimanded those in authority without hesitation. In 1749 the Presidency of Madras entered unwarrantably into the war of Tanjor, which was followed by that of Arcot. This was contrary to the wishes of the Directors, and should not be taken as evidence of

[1] Cf. (i) that of the war against the Bengal authorities in the time of Aurangzib; (ii) the despatch of the Court of Directors dated April 5, 1776, in which they approved "under every circumstance" of the treaty of Surat.

the military character of the Company. The real truth lies in a complete understanding of the gradual development of the Company from a purely commercial enterprise to a sovereign and ruler in India. As its responsibilities increased, it was inevitable that its character should be modified, for a sovereign power must always recognise that its first duty is to its subjects. There came a time therefore when the policy of the Company was of necessity governed by other considerations than those of pure commerce, and a prosperous community in India became more important than a large dividend at home. It is one of the salient facts of the history of this great corporation, that the private interests of the shareholders were always reckoned less important than the duty it owed to its sovereign and to its native subjects.

The comparison of the English Company with its European rivals reveals therefore two important facts. It shows that the close connection of a commercial enterprise with the state is fatal. At the end of the seventeenth century the English Company showed a tendency to become an appanage of the Court; James II was a subscriber to its funds. Fortunately the connection was checked by the Revolution and the rise of Whig doctrines, and after this date the Government watched its development with a keen jealousy,

and, if anything, oppressed the Company unnecessarily. The Dutch Company, which was a comparatively small enterprise, was very successful at first, but its fall was brought about by the decline of the power of the Netherlands, while the French Company, which was only created by the whim of a royal financier, lacked, throughout its history, the stimulus that private enterprise alone can give.

The second result of the comparison is to show that a private enterprise can adapt itself to new conditions with a facility which is quite impossible for a government organisation. The manner in which the English Company coped with its ever-growing responsibilities, and, in the end, suffered a complete change of character, reveals the potentialities of such a corporation. Of course, all Englishmen will maintain that the success of the English Company is largely due to the pre-eminent gift for government with which the Anglo-Saxon race is endowed. But before this is accepted as the solution of the problem of the conquest of India, it will be necessary to explain away the loss of the American Colonies at the very moment when the East India Company was consolidating its position in India.

The history of the great trading companies in Europe is interesting from the economic as well as from the historical point of view, and it is this

aspect of the question with which this essay is more immediately connected. It has been suggested that a monopoly company was but a temporary expedient, and that the East India Company, in particular, outlived its period of usefulness. From the economic standpoint this is true. Long before the monopoly of the eastern trade was forfeited, the conditions which had rendered the creation of its privileges expedient, had passed away. But the political work which the Company did in the later years of the eighteenth century, and the honourable policy which it continued to pursue, blinded the nation to the fact that, however good a sovereign it might be, its economic privileges were detrimental to the national commerce.

There is no doubt that, from the point of view of the consumer, the free exchange of commodities is the ideal at which all commercial enterprise should aim. It is obvious that, if two people are willing to exchange goods, each must value that which he receives more highly than that which he gives, and therefore both are benefited. This is the strictly theoretical argument upon which economists base their attacks upon all attempts to control trade by legal methods. But the axioms upon which this dictum is founded, are by no means universally applicable. In the case of the East India Company there is no doubt that the trade was highly profitable to the English nation,

and it is also certain that without a monopolist company the trade could never have been undertaken in the seventeenth or eighteenth centuries. The law of increasing returns, which applies especially to shipping, suggests that free competition in the first instance would have involved all participants in ruin. As it was, the competition of one ship with another, in the first few years of the Company's existence, soon convinced the merchants that the only possible means by which the trade could be conducted successfully, was the employment of the Joint Stock principle. Even Adam Smith admitted the necessity of protecting an "infant industry," but, when he wrote, the days of the trade's "infancy" were passed, and he firmly declared that, if the trade could not be conducted successfully without external aid, its continuance was detrimental to the nation. In this he was correct, and the enormous increase in the volume of trade after 1813 shows clearly that the Company had formed a very real check upon the natural development of Anglo-Indian commerce. In this connection however the failure of the famous Darien Company is very illuminating. This Company was not formed with the intention of securing exclusive privileges. Its promoters declared that they wished to render it possible for all individuals to secure a share in the African trade. The Company should pave the way for individual

enterprise, and in return should receive a small percentage on the trade. A similar scheme was also proposed for the Indian trade, but fortunately its rejection was secured by Walpole's agency. For a while the African trade increased, but the subsequent disaster proved that the age was not ready for Free Trade. Theoretically the Darien scheme was admirable, and, judged by modern principles, was superior to the Indian system, but in practice it was as yet impossible. At the end of the eighteenth century, however, economic and industrial conditions had been widely changed, and the appeal for Free Trade, so eloquently preached by Adam Smith, secured a ready hearing. There is however a strong argument on the side of protectionists, which is based upon patriotic rather than economic principles. It is conceivable that the Indian trade would have been more profitable to the nation, if it had been free and open, but, had it been thrown open in the eighteenth century, would India now form part of the British Empire? France was defeated in India by the Company, and by the Company alone. The decisive battles were fought when England could spare neither money nor men, and, had the Company not learned to employ Indian troops and to pay them with Indian money, it is probable that India would have fallen to the share of France.

Such speculation as to the probable course of

historical events had things been different from what they were, is often valueless, but it is wise to remember that the monopoly of the East Indian trade was responsible for the growth of that great and mighty corporation, which did *actually* win India for Great Britain. It is therefore possible to claim that, even if the nation lost somewhat financially because the eastern trade was closed, this loss was amply compensated by the acquisition of India without the payment of a single shilling from the national treasury.

If this is so, it will justify the existence of the Company until the end of the eighteenth century. After this, there was no longer any doubt as to which nation would be supreme in India. Moreover the excellent system of government, which the Company had instituted, rendered combination amongst the merchants for purposes of mutual protection unnecessary. India was now ready to reap the benefit of Free Trade, and by the wisdom of the British Government she was permitted to do so.

With regard to the details of the Indian trade, it appears that the undertaking presented great difficulties to those who engaged in it. The poverty and religious scruples of the natives gave a unique character to all commercial intercourse. The situation was complicated by the extremely unstable condition of their political affairs. It was

found necessary to participate in the local wars—a policy which involved great expense and received severe criticism from those who were unacquainted with the local conditions. The fact that the trade consisted almost entirely in importing Indian goods to England caused a disastrous disarrangement of the rate of exchange: the gold and silver coins did not bear a determinate relation to one another, and silver, in particular, became very scarce. The theory of exchange was ill-understood, and the position was complicated by the large remittances continually sent to Europe. In fact, the commercial relations of India and England presented entirely novel characteristics, and it is for this reason that the Indian trade appears to have been conducted upon very uncertain principles. In some cases enormous profits were made, and in others considerable losses incurred.

Criticism however is easy, and it is but fair to state that, throughout its history, the Company endeavoured with all the means at its disposal to promote a trade with India which should benefit its shareholders, the English nation, and India itself. Its patriotism and its straightforward methods of business secured for it a reputation of which it was justly proud, and it will always stand out in history as a monument to British enterprise and honour.

APPENDIX

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